Whitbread™
Welcome with a smile

Whitbread PLC

Directors' Report and Accounts 2007/8
Focusing on growth

Contents

The full Whitbread Report and Accounts 2007/8 (comprising this document together with the Annual Review and Summary Report) are published on the Company's website (www.whitbread.co.uk) and can also be obtained, free of charge, by telephoning Capita Registrars on 0844 855 2327.

Directors' report

The directors present their report and accounts for the year ended 28 February 2008.

Principal activities and review of the business

A detailed review of the Group's activities, the development of its businesses, and an indication of likely future developments is given on pages 5 to 17 of the Annual Review.

A description of the principal risks and uncertainties facing the Group is set out in the Appendix to this report on pages 5 to 6.

Results and dividends

Group profit before tax and exceptional items from Continuing operations[1]	£210.3m
Group profit before tax and after exceptional items from Continuing operations [1]	£134.6m
Interim dividend paid on 8 January 2008	9.10p per share
Recommended final dividend	26.90p per share
Total dividend for the year	36.00p per share

Subject to approval at the Annual General Meeting, the final dividend will be payable on 11 July 2008 to shareholders on the register at the close of business on 9 May 2008.

[1] **Continuing operations**
Continuing operations comprises Premier Inn, the retained Pub Restaurant Estate, Costa, the disposed of pub restaurant sites during the period of Whitbread ownership and supply chain sales to third parties but excludes David Lloyd Leisure, the Pizza Hut joint venture and TGI Friday's.

Post balance sheet events

On 8 April 2008 the Group announced the acquisition of three hotels from Real Hotel Company PLC for £18.5 million.

The Group's £280 million revolving credit facility expired on 8 March 2008 and was fully utilised at 28 February 2008. Upon expiry of this facility, the Group entered into a new five-year multi-currency revolving credit facility of £455 million, which will expire in March 2013. The variable interest rates charged on this facility are linked to LIBOR.

As a result of The Laurel Pub Company Limited going into administration on 27 March 2008, a provision of £20.9 million has been charged to income to recognise the expected cost of lease reversions relating to properties that are expected to revert to the Group.

Board of directors

The directors at the date of this report are listed on pages 24 and 25 of the Annual Review. All except for Simon Melliss, Wendy Becker and Stephen Williams served throughout the year. Simon Melliss joined the Board on 1 April 2007 and took over as Chairman of the Audit Committee on 1 May 2007. Wendy Becker joined the Board on 18 January 2008 and Stephen Williams was appointed on 27 April 2008.

Angie Risley resigned from the Board on 22 May 2007. Margaret Ewing left the Board on 31 July 2007 and Rod Kent stepped down on 31 March 2008.

Charles Gurassa and Philip Clarke will stand for re-election at the forthcoming AGM in accordance with the Company's Articles of Association.

Details of directors' service contracts are given in the remuneration report on page 13. None of the non-executive directors has a service contract.

Share capital

Throughout the year, the authorised share capital has been £319.89 million divided into 410,170,050 ordinary shares of 76 $^{122}/_{153}$p each (representing 98.47% of the total share capital), 265 million B non-cumulative preference shares of 1 penny each (representing 0.83% of the total share capital) and 224 million C non-cumulative preference shares of 1 penny each (representing 0.70% of the total share capital).

Details of the issued share capital can be found in note 30 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 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, or (ii) 24 hours before a poll is taken, if the poll is not taken on the same day as the meeting or adjourned meeting. Unless the directors decide otherwise, a shareholder cannot attend or vote shares at any general meeting of the Company or at any separate general meeting of the holders of any class of shares in the Company or upon a poll or exercise any other right conferred by membership in relation to general meetings or polls if he has not paid all amounts relating to those shares which are due at the time of the meeting.

Restrictions on transfer of shares

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

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

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

B shares and C shares

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

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

Employee share schemes

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

Appointment and replacement of directors

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

Each director shall retire from office at the first Annual General Meeting following his appointment and shall be eligible for reappointment. At every annual general meeting at least one third of the current directors must retire as directors. Where the number of directors is not three or a number divisible by three, the minimum number of directors to retire will be the number which is nearest to and less than one third. If there are less than three directors, they will all retire.

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

Any director automatically stops being a director if (i) he gives the Company a written notice of resignation, (ii) he gives the Company a written notice in which he offers to resign and the directors decide to accept this offer, (iii) all of the other directors (who must comprise at least three people) pass a resolution or sign a written notice requiring the director to resign, (iv) he is or has been suffering from mental ill health and the directors pass a resolution removing the director from office, (v) he has missed directors' meetings (whether or not an alternate director appointed by him attends those meetings) for a continuous period of six months without permission from the directors and the directors pass a resolution removing the director from office, (vi) a bankruptcy order is made against him or he makes any arrangement or composition with his creditors generally, (vii) he is prohibited from being a director under any applicable legislation, or (viii) he ceases to be a director under any applicable legislation or he is removed from office under the Company's Articles of Association.

Amendment of the Company's Articles of Association

Any amendments to the Articles of Association of the Company may be made in accordance with the provisions of the Companies Acts by way of special resolution. A resolution will be put to the Annual General Meeting to be held on 17 June 2008 to adopt new Articles of Association. Details of the specific changes being proposed are set out in the appendix to the notice of the 2008 AGM.

Powers of the directors

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

Significant agreements
Both of the Company's facility agreements, details of which can be found in note 23 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.

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

Supplier payment policy
The Company has no trade creditors (1 March 2007: nil). The Group keeps to the payment terms which have been agreed with suppliers. Where payment terms have not been specifically agreed, it is the Group's policy to settle invoices close to the end of the month following the month of invoicing. The Group's ability to keep to these terms is dependent upon suppliers sending accurate and adequately detailed invoices to the correct address on a timely basis. The Group had 49 days' purchases outstanding at 28 February 2008 (1 March 2007: 49 days), based on the trade creditors at that date and purchases made during the year.

Major interests
As at 23 April 2008, the Company had been notified of the following interests of 3% or more of the voting rights of the Company pursuant of Rule 5 of the Disclosure and Transparency Rules:

	No. of shares	% of issued share capital
Legal and General	11,985,389	6.82%
Schroders Plc	10,531,421	5.99%
AXA SA	9,509,114	5.41%
Crédit Agricole Group	7,113,390	4.05%

Charitable and political donations
No direct charitable donations have been made by the Company. The Whitbread Charitable Trust made donations totalling £223,274 during the year. Costa Limited, a subsidiary of the Company, made a direct donation of £103,500 to the Costa Foundation. Further details about the Costa Foundation can be found on page 23 of the Annual Review.

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

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

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

Employee involvement
The importance of good relations and communications with employees is fundamental to the continued success of our business. Each of the Group's operating businesses maintains employee relations and consults employees as appropriate to its own particular needs. Regular internal communications are made to all employees to ensure that they are kept well informed of the performance of the Group.

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

Purchase of own shares
At the 2007 Annual General Meeting, the Company was authorised to purchase up to 19.7 million of its ordinary shares on the open market. This authorisation was extended at a General Meeting on 27 November 2007 by a further 17.8 million shares. In total, 22.3 million ordinary shares of $76^{122}/_{153}$p each, representing 10.94% of total called up share capital at the beginning of the year, were acquired during the year at a cost of £340.3 million. Five million of these shares (representing 2.45% of total called up share capital at the beginning of the year) have now been cancelled, with the remainder (representing 8.49% of total called up share capital at the beginning of the year) being held as treasury shares. The maximum number of ordinary shares held in treasury during the year ended 28 February 2008 was 20,133,806 on 8 January 2008, representing 10.14% of total called up share capital at that time.

At the Extraordinary General Meeting of the Company held on 20 June 2006, the Company was authorised to purchase its B shares pursuant to a proposed contract between Deutsche Bank AG, London Branch and the Company. In total, 4.5 million B shares of 1 penny each, representing 0.03% of total called up share capital at the beginning of the year, were acquired during the year at a cost of £7 million, as part of the strategy to return value to shareholders. All of these shares have now been cancelled.

Authority for the Company to purchase its own ordinary shares and C shares will be sought at the 2008 AGM. Further details are set out in the notice of the 2008 AGM.

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

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

Disclosure of information to auditor

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

Directors' share interests

The interests of directors at the end of the year in the ordinary shares of 76 $^{122}/_{153}$p each in the Company are shown below:

Board	Held at 28/2/2008	Held at 1/3/2007
Anthony Habgood	30,797	16,972
Alan Parker	65,263	45,361
Angie Risley	11,734 (1)	7,606
Christopher Rogers	14,319	9,319
Philip Clarke	3,797	3,797
Margaret Ewing	– (1)	–
Charles Gurassa	1,821	1,821
Rod Kent	1,952	1,952
Wendy Becker	2,500	– (2)
Simon Melliss	1,500	– (2)

The share interests shown above include the non-beneficial interests of Anthony Habgood in 522 ordinary shares of 76 $^{122}/_{153}$p each (697 ordinary shares as at 1 March 2007).

(1) at date director stepped down from the Board
(2) at date of appointment

Further details regarding the interests of the directors in the share capital of the Company, including with respect to options to acquire ordinary shares, are set out in the Remuneration Report. With the exception of the automatic release of 17,731 ordinary shares of 76 $^{122}/_{153}$p each to Alan Parker under the Whitbread Leadership Group Incentive Scheme, there have been no changes in the interests of directors between the balance sheet date and the date of approval of the accounts.

Going concern

The directors have a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the accounts.

Annual General Meeting

The AGM will be held at 2.00pm on 17 June 2008 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE. The notice of meeting is enclosed with this report for those shareholders receiving hard copy documents, and available at www.whitbread.co.uk for those who elected to receive documents electronically.

By order of the Board

Simon Barratt
General Counsel and Company Secretary

27 April 2008

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LU5 5XE

Registered in England: No. 4120344

Appendix to the directors' report – risks and uncertainties

The financial results of Whitbread's businesses and/or its share price could be materially adversely affected by a number of different risks and uncertainties. This section highlights what the Board believes some of the main risks to be and explains how the Group mitigates these risks.

Marketplace risks

Consumer trends

It is possible that changes in consumer trends may reduce the appeal of some of Whitbread's businesses if those trends are not properly anticipated and action is not taken to address potential issues at an early stage.

Whitbread mitigates this risk in a number of ways. First, each of the Group's businesses carries out market research and analyses consumer trends in the UK and overseas. Whitbread uses this research to anticipate future consumer trends and to position itself to benefit from those trends.

In addition, the Group places great importance on listening to the views of its customers. Premier Inn, for example, obtained feedback from over 425,000 customers last year. It uses this feedback to ensure that it continues to offer the type and quality of services that its customers expect. The importance of the customer to Whitbread is demonstrated by the fact that "Guest Recommendation" is one of the key elements of the Group's WINcard (see page 8 of the Annual Review for further details). Whitbread believes that by listening to its customers it is significantly reducing the risks associated with changing customer trends.

Consumer spending

As more than 95% of Whitbread's turnover comes from the UK, the general health of the UK economy is important to the Group's success. There is currently speculation that problems in the credit market could lead to a downturn in consumer spending. A significant downturn in consumer spending would be a risk to Whitbread's financial performance. However, approximately half of Premier Inn's turnover is business to business.

Whitbread has over 1,600 outlets, which operate in different sectors of the UK hospitality industry. These businesses appeal to different sectors of the UK economy and are spread across the whole of the UK. The differing types of business operated by Whitbread mitigate the risk of reduced consumer spending. The largest contribution of profit to Whitbread is from its budget hotels business, Premier Inn. This sector, with a mix of business and leisure customers, has proven to be robust in times of lower economic activity and Whitbread believes that Premier Inn has the resilience to withstand any downturn. The geographical spread of Whitbread's businesses helps to mitigate the risk of a regional downturn in consumer spending. In addition, Whitbread's expansion into emerging markets elsewhere in the world will further reduce Whitbread's exposure to the UK consumer.

Competition

The hospitality sector of the UK economy is highly competitive. Whitbread's future financial performance would be at risk if it failed to compete strongly and lost market share to its competitors.

Whitbread has a sector-leading business in budget hotels. It also has a fast growing chain of coffee stores. The success of these businesses is evidence of Whitbread's ability to perform well relative to its competitors.

An important part of ensuring that Whitbread continues to compete effectively is the in-depth analysis that the Group's businesses carry out on their competitors. Whitbread people visit competitors' sites on a regular basis to keep abreast of changes in the market.

All Whitbread's businesses use the WINcard to monitor their key performance indicators. Whitbread believes that by using the WINcard to get the fundamentals right, it will reduce the risk of losing market share to its competitors.

Operational risks

Suppliers

The quality and efficiency of Whitbread's supply chain is key to the ongoing success of the Group's businesses. A breakdown in the supply chain would reduce the ability of the businesses to deliver the experience that its customers expect.

During the course of the 2008/9 financial year, Whitbread will complete the outsourcing of its food logistics operation to Kuehne + Nagel (K+N). The failure of K+N would be a significant operational risk to Whitbread. Whitbread mitigated this risk by undertaking a rigorous selection process and ensuring that K+N has appropriate disaster recovery plans in place.

Two further suppliers have been identified as being key suppliers, the failure of which would be a potential risk to Whitbread. The Group has mitigated this risk by developing an understanding of those suppliers' contingency and disaster recovery plans and by identifying alternative suppliers with the capacity to supply Whitbread if required.

Food safety/food sourcing

The contamination of products served to the Group's customers would put the Group's reputation and future performance at risk.

Whitbread has implemented a robust supplier audit programme. The selection process for food suppliers includes exacting food safety prequalification. Whitbread maintains a multi-region sourcing strategy where appropriate. For example, the sourcing of Whitbread's poultry is split between the UK, Brazil, Thailand and the Netherlands to mitigate the possible occurrence of avian flu in any one of those countries.

People

The successful delivery of service to the Group's customers depends on Whitbread recruiting and retaining people of a high quality. The failure to employ the right people would put the Group's reputation at risk and could lead to loss of market share.

Whitbread is proud of its people. The Group believes that by taking care of its people, its people will take care of the customers, and financial performance will follow. Whitbread listens to the views of its employees, has a range of employment policies designed to make Whitbread a rewarding place to work and emphasises the importance it attaches to its people by including Team Turnover and Health and Safety as two key measures on its WINcard.

Whitbread carries out a rigorous selection process and benchmarks the pay and benefits that it offers its employees in order to recruit and retain the best people for the role. Talent planning is carried out on an annual basis.

More information on Whitbread's people can be found on pages 21 and 22 of the Annual Review.

Health and safety
A major incident resulting from a health and safety failure would be a significant reputational risk to Whitbread. Whitbread takes health and safety very seriously. The central Safety and Security team ensures a consistency of approach. All strategic business units have comprehensive health and safety policies and risk assessments covering significant areas of risk. In addition, health and safety is one of the key measures on the WINcard. More details about the Group's approach to health and safety can be found on page 21 of the Annual Review.

Expansion
A vital part of Whitbread's future development and success is the continued expansion of its successful Costa and Premier Inn businesses. Failure to expand these businesses at a fast enough rate could adversely affect the Group's future performance.

Whitbread has announced ambitious plans to expand both Premier Inn and Costa. The Group has an ambition of 55,000 Premier Inn rooms and 2,000 Costa stores within the next five years. Dedicated development teams and acquisition managers have been tasked with meeting these ambitions and have succeeded in meeting the targets set for 2007/8. These teams have now been increased in order to meet the Group's ambitions.

Pub Restaurants
A significant part of Whitbread's turnover is derived from the pub restaurants businesses. The continued improvement in performance is an important factor in the Group's future prospects.

In 2008 a new combined Whitbread hotels and pub restaurants management team was put in place with the intention of improving the key areas of pricing, food quality, environment and service. The new structure reflects the joint site model.

External financial risks

Utility costs
In common with any significant company in the hospitality sector, Whitbread's businesses require a large amount of electricity, gas and water. Recent years have seen large rises in utility costs and future cost increases are a risk.

Whitbread has mitigated these cost rises by the forward buying of resources to guard against future cost rises and by reducing its requirement for these resources. More information about the energy saving achievements so far and the plans for future savings can be found in the Environment Report on the Company's website.

Wage inflation
The minimum wage has increased faster than the rate of general wage inflation over the last four years. It currently stands at £5.52 per hour. There is a risk that the minimum wage will continue to rise at a faster rate than the rate of inflation.

Whitbread has mitigated against this continuing risk by reviewing its operating procedures and improving productivity through the use of labour scheduling techniques.

Food inflation
Input pricing is currently running higher than last year and continuing high price increases would be a risk to Whitbread's profitability. Whitbread has a dedicated procurement team to help mitigate this risk.

Pension funding
Whitbread operates a defined benefit pension scheme. At 28 February 2008, there was a gross pension fund deficit of £33.0 million. There is a risk that this deficit could grow in the event of poor investment performance or increasing life expectancy. Recent legislation means that, on occasions, it may be necessary to approach the Pensions Regulator for pre-clearance of agreements reached with the Pension Trustee at the time of significant corporate transactions. Such clearance may include a requirement to increase the level of funding over a reduced timescale.

Whitbread's pension risks have been mitigated by the closure of the defined benefit scheme to new entrants on 31 December 2001. A defined contribution pension scheme is available to eligible new employees. Whitbread also maintains a close dialogue with the pension scheme's Trustee. In order to reduce the funding deficit in the scheme, the Group has made additional contributions of £150 million since September 2005 and committed to further injections of £90 million over the next three years. These contributions were agreed with the Trustee Board in advance of the Company's returns of cash to shareholders in 2006 and 2007.

Privity risk
Companies within the Group are party to leases of properties relating to businesses which have been sold where the Group's interests in the leases have been assigned to a third party. If the third party defaults in its obligations under those leases (such as when the third party becomes insolvent), the landlord may be able to hold the original Whitbread company which entered into the lease liable to meet the obligations under the lease. This is a risk carried by all companies selling leasehold interests.

Corporate governance report

The Company is committed to high standards of corporate governance. In this report Simon Barratt, General Counsel, explains how the main and supporting principles of the Combined Code on Corporate Governance are being applied on a daily basis.

Who is on the Company's Board of directors?

The Board currently consists of the Chairman, two executive directors and five independent non-executive directors. Profiles of each director can be found on pages 24 to 25 of the Annual Review.

How did the Company arrive at the conclusion that five of its directors are independent?

The Combined Code lists a number of circumstances that might call the independence of a director into question. The Board is satisfied that no such circumstances exist for any of the Company's non-executive directors.

What are the terms of appointment for independent non-executive directors?

Independent non-executive directors are initially appointed for a three-year term and may, under normal circumstances, serve up to three such three-year terms. Their letters of appointment are available for inspection at the Company's registered office.

How is the structure and membership of the Board determined?

Ultimately the Company's shareholders determine Board membership at the AGM. All new directors are required to stand for election at the AGM following their appointment and existing directors must stand for re-election by rotation in accordance with the Articles of Association.

The Nomination Committee is responsible for reviewing the structure and membership of the Board, and for making recommendations to the Board. After these recommendations are considered and approved by the Board, ultimately, they are voted on by shareholders.

The Board is of the opinion that it is of an appropriate size for the requirements of the business, it has the appropriate balance of skills, knowledge and experience and that it has a good balance between executive and independent non-executive directors.

How does the Board operate and what are its key responsibilities?

- the Board met 12 times last year. Before each Board meeting directors are given timely and appropriate information, including monthly financial and trading reports. The attendance records of individual directors can be found in the table on page 10;
- all members of the Board take collective responsibility for the performance of the Company and all decisions are taken objectively in the interests of the Company and its shareholders;
- a schedule of matters reserved to the Board includes the oversight of key aspects of strategy and management, financial reporting and controls, the management of shareholder communication, as well as the approval of policies and major transactions. The schedule can be seen in full on the Company's website: www.whitbread.co.uk;
- the Board oversees and approves the Company's overall strategy and ensures that the necessary resources are in place in order to meet the Company's objectives; and
- the Board has responsibility for ensuring that the Company's obligations to its shareholders are met.

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

There is a clear written division of responsibility between the Chairman and Chief Executive.

The Chairman is responsible for:

- running the Board and setting its agenda;
- ensuring, through the General Counsel, that the members of the Board receive accurate, timely and clear information and that there is a good flow of information;
- managing the Board to ensure that sufficient time is allowed for the discussion of complex or contentious issues;
- ensuring that the directors continually update their knowledge and capabilities;
- ensuring that the members of the Board develop an understanding of the views of the major investors; and
- the annual evaluation of the performance of the Board and its committees and implementing the action required following such evaluation.

The Chief Executive is responsible for:

- setting the strategic direction for the Company;
- overseeing the day-to-day management of the Company;
- the line management of senior executives;
- the activities of the Whitbread Directors' Forum – a group of over 40 of the Company's most senior executives; and
- ensuring effective communication with shareholders and employees.

How is the Board's performance evaluated?

The performance of the Board, and individual directors' contributions to the Board, is appraised annually by the Chairman. This year:

- each director completed a formal questionnaire on the Board's performance;
- the Chairman met each director on a one-to-one basis; and
- the results of the review were discussed by the Board and an appropriate action plan was agreed.

The performance of the Board's committees was reviewed during the year in line with their terms of reference.

The performance of the Chairman was evaluated during the year by Rod Kent, the Senior Independent Director, who discussed the Chairman's performance with each of the directors. The results of the review were given directly to the Chairman by Rod Kent.

How does the Company ensure that new directors are given the tools to do an effective job?

The General Counsel is responsible for ensuring that, on appointment, new directors are given a formal and individually tailored induction. In the case of newly appointed non-executive directors, this would typically include a number of visits to the Company's outlets to enable a thorough understanding of the businesses. New directors are available to meet major shareholders if requested.

Do the directors have access to independent advice?

All directors have access to independent professional advice at the Company's expense. In addition, directors have access to the General Counsel.

Do the directors update their knowledge and skills on a regular basis?

The Board receives a regular investor relations report which includes share price performance, movements in institutional holdings and the response by institutions to the communications programme.

During the year directors attended training courses and seminars, or received tailored training, on a number of relevant issues.

How does the Board interact with the Company's shareholders?

The Company recognises the importance of dialogue with both institutional and private shareholders.

Institutional shareholders, fund managers and analysts are briefed at regular meetings and presentations. Regular meetings were held with institutional shareholders during the year, either one-to-one or as part of a larger grouping, both in the UK and abroad.

The Chief Executive and Finance Director play an active part in these meetings. Non-executive directors are offered the opportunity to attend the meetings and would attend if required by major shareholders.

Recent topics of interest to investors have been:

- organic growth plans;
- capital structure; and
- international development.

Annual and interim results presentations are webcast live so that all shareholders can receive the same information at the same time. The Company's website provides comprehensive information for private shareholders.

Private shareholders have the opportunity to put questions to the Board at the AGM, and at all other times by emailing or writing to the Company.

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

Where can I find details of the Company's compliance with the Combined Code in relation to remuneration?

Details of how Whitbread has applied the main and supporting principles of the Combined Code with regard to remuneration can be found in the remuneration report on pages 11 to 19. In addition, the table on page 10 contains details of the membership and activities of the Remuneration Committee.

What board committees does the Company have?

The table on page 10 contains information relating to the Audit Committee, the Nomination Committee and the Remuneration Committee.

In addition to these three committees the Board has delegated authority to the General Purposes Committee to deal with business of a routine nature and other specific matters delegated to it by the Board. The committee is made up of at least two directors designated by the Board and meets as required.

The following groups also meet:

- the Main Board Committee (MBC) comprises the executive directors together with the General Counsel, the Group Human Resources Director and the Managing Directors of Whitbread Hotels and Restaurants (WHR) and Costa. The MBC meets at least monthly in preparation for Board meetings;
- the WHR Management Board meets monthly to consider issues affecting Premier Inn and the Group's pub restaurants. It is attended by the executive directors, the General Counsel and the Group Human Resources Director together with Patrick Dempsey, Managing Director of WHR, and the rest of the WHR management team; and
- the Costa Management Board meets monthly to consider issues relating to the management of Costa's coffee store business. It is attended by the executive directors, the General Counsel and the Group Human Resources Director, together with John Derkach, Managing Director of Costa, and the rest of the Costa management team.

How does the Company seek to ensure that its employees behave with honesty and integrity?
The Company takes the view that corporate governance is not a matter for the Board or its committees alone and has developed a Code of Business Ethics, which is briefed to all employees. This covers dealings with customers, suppliers and government officials; safeguarding the Company's assets; keeping accurate and reliable records; and avoiding conflicts of interest. Its principal message is that all employees must observe a code of conduct based on honesty, integrity and fair dealing.

In addition the Company has a formal policy under which employees are able to speak to an independent organisation about any significant financial or control issues. Issues would then be brought to the attention of the Chief Executive and Company Secretary and reported to the Audit Committee.

What is the Company's financial reporting policy?
The Board always strives to present a balanced and understandable assessment of the Company's position and prospects. This involves formal reports such as this, other price sensitive public reports, reports to regulators and any other information required by statute.

Does the Company maintain adequate systems of internal control?
The Board is responsible for the Group's systems of internal control and for reviewing their effectiveness. These systems are designed to manage rather than eliminate the 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 2007/8 financial year and up to the date of this report. The process is regularly reviewed by the Board and accords with the internal control guidance for directors in the Combined Code.

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

- the formulation, evaluation and annual approval by the Board of business plans and budgets. Actual results are reported monthly against budget and the previous year's figures. Key risks are identified and action plans prepared accordingly;
- the production by each business of a risks and controls matrix, covering major risks and plans to mitigate those risks. These matrices are considered by the Audit Committee;
- a regular review by the Board of changes in the major risks facing the Group and development of appropriate action plans;
- the consideration of risks and appropriate action plans, when appraising and approving all major capital and revenue projects and change programmes. A post completion review of each major project is undertaken;
- financial policies, controls and procedures manuals, which are regularly reviewed and updated;
- the limits of authority, which are prescribed for employees. Whitbread's organisational structure allows the appropriate segregation of tasks;
- the Code of Business Ethics, which is communicated to employees;
- the operational audit function, which reports on the effectiveness of operational and financial controls across the Group; and
- the Audit Committee regularly reviews the major findings from both operational and external audit. Further details can be found in the table on page 10.

The Board has carried out a specific assessment of the Group's systems of internal control for the purpose of this annual report. The Audit Committee has assisted the Board in discharging these responsibilities.

Do the members of the Audit Committee have recent and relevant financial experience?
The Board is satisfied that at least one member of the Audit Committee has recent and relevant financial experience but has determined not to identify any individual as having such experience.

Has the Company formally reviewed its corporate governance performance during the year?
The General Counsel produced a review of the Company's corporate governance procedures, which was considered by the Board in January 2008. The Board agreed that the Company was in compliance with the Combined Code at the date of the review.

Has the Company complied throughout the year with the provisions of the Combined Code?
The Company complied throughout the year with the provisions set out in Section 1 of the Combined Code.

Simon Barratt
General Counsel

27 April 2008

Attendance at meetings

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings in the year	**12**	**3**	**2**	**2**
Anthony Habgood	12	–	2	2
Alan Parker	12	–	–	2
Angie Risley (1)	3	–	–	–
Christopher Rogers	12	–	–	–
Philip Clarke	9	–	1	–
Margaret Ewing (2)	5	2	1	1
Charles Gurassa	12	3	2	2
Rod Kent	11	2	2	–
Simon Melliss (3)	10	2	–	–
Wendy Becker (4)	2	–	–	–

(1) Angie Risley resigned from the Board on 22 May 2007. Three Board meetings were held up to that date.

(2) Margaret Ewing resigned from the Board on 31 July 2007. Five Board meetings, two Audit Committee meetings, one Remuneration Committee meeting and one Nomination Committee meeting were held up to that date.

(3) Simon Melliss was appointed as a director on 1 April 2007. Eleven Board meetings and two Audit Committee meetings were held after that date.

(4) Wendy Becker was appointed as a director on 18 January 2008. Two Board meetings were held after that date. No Audit Committee or Remuneration Committee meetings were held after that date.

Board committees

	Audit Committee	Nomination Committee	Remuneration Committee
Chair	Simon Melliss	Anthony Habgood	Charles Gurassa
Members of Committee	Charles Gurassa Wendy Becker	Charles Gurassa Alan Parker Stephen Williams*	Philip Clarke Anthony Habgood Wendy Becker Stephen Williams*
Summary of key issues addressed during the year	The Committee dealt with: • Group and brand internal controls and risk management; • approval of financial statements for the full and half year; • review of the effectiveness of the internal and external audit functions; • auditor's independence; and • operational audit plans and outcome of reviews.	The Committee discussed: • the appointment of Wendy Becker to the Board; • the search for new independent non-executive directors; and • the appropriate composition of the Board.	The Committee dealt with: • remuneration of the executive directors; • changes to the operation of the Leadership Group Incentive Scheme; and • changes to the operation of the Long Term Incentive Plan.

The full terms of reference of all three committees were reviewed during the year and can be found on the Company's website. They are also available by requesting a copy in writing from the General Counsel.
** Stephen Williams was appointed to these committees after the end of the financial year.*

Remuneration report

This report of the Remuneration Committee, which has been approved by the Board, states Whitbread's remuneration policy and details the remuneration of the directors for 2007/8. This remuneration report will be the subject of a shareholder resolution to be proposed at the AGM.

Contents of this report

The Remuneration Committee comprises:
Charles Gurassa (Chairman)
Anthony Habgood
Wendy Becker
Philip Clarke

With the exception of Anthony Habgood, Chairman of Whitbread, all of the above individuals are independent non-executive directors. Anthony Habgood was independent on his appointment as Chairman.

Part 3 of Schedule 7a of the Companies Act 1985 requires that certain parts of the remuneration report are audited. Throughout this report those sections that have been audited are marked clearly as 'audited information' for the sake of clarity.

Introduction

Whitbread's continued success is dependent on the skills and enthusiasm of the people who work in our businesses. This report focuses on directors' remuneration, but the principles which form the basis of the Group's remuneration policy apply to all managers of Whitbread's businesses.

By ensuring that our employees are fairly and appropriately incentivised and rewarded, we believe that they will continue to deliver outstanding service to our customers and value to our shareholders.

My colleagues and I on the Remuneration Committee will continue to monitor the Group's remuneration packages, to ensure that they are appropriate.

Remuneration Committee and its advisers

The Committee recommends to the Board the specific remuneration packages for the Chairman and the executive directors. During 2007/8 the Committee met twice; details of the directors' attendance can be found on page 10. All of its recommendations to the Board were accepted.

The terms of reference of the Committee are available on the Company's website at www.whitbread.co.uk. A copy may also be requested by writing to the General Counsel's office.

The Committee has appointed Hewitt New Bridge Street Consultants LLP and Towers Perrin, who are independent remuneration consultants, to provide specialist advice. They provide no other type of service to the Whitbread Group. Hewitt New Bridge Street Consultants LLP, together with Slaughter and May, advise the Group on the implementation of the Committee's policy decisions.

The Committee receives internal advice from Louise Smalley, Group Human Resources Director. The secretary to the Committee is Simon Barratt, General Counsel.

The graph on page 13 shows the percentage change in total shareholder return (TSR) (with dividends reinvested) in the holdings of the Company's shares against a hypothetical holding of shares in the FTSE 100 Index over a five-year period.

The FTSE 100 Index has been chosen because it represents an appropriate market index in which the Company is a constituent member.

Remuneration policy

The Group's policy for directors' remuneration for 2008/9 and subsequent financial years is that the overall package will be sufficiently competitive to attract, retain and motivate high calibre executives. They will be expected to have the skills, expertise, enthusiasm and drive to achieve the Group's objectives and to enhance shareholder value. Such remuneration packages will reflect their personal contribution and the Group's overall success. The Committee recognises the importance of having a significant proportion of an executive's remuneration being linked to performance. Further, in order to promote retention and sustained corporate performance, the balance between short-term and long-term rewards is important.

The remuneration of executive directors comprises the following elements:

- base salary;
- benefits;
- pension;
- Whitbread Leadership Group Incentive Scheme; and
- Long-term Incentive Plan awards.

Details of each of these elements follow.

Base salary

Base salaries are reviewed annually. Market data is made available and is one of a number of factors considered by the Committee in making its decisions. Before awarding any base salary increase to directors, careful consideration is given to trading circumstances across the whole Group and to personal performance against agreed objectives.

Benefits

Life assurance and private health cover are core benefits provided to all executives. Non-core benefits, for which cash alternatives are available, are family health cover and a fully expensed company car.

Pension

The final salary section of the Whitbread Group Pension Fund was closed to new entrants, including directors, on 31 December 2001. All new recruits after that date are offered participation in the defined contribution section of the scheme.

For executive directors, the policy is to pay a company contribution of 25% of salary. After each of five and 10 years' service these contributions will be increased by a further 2.5% of salary. Executives may choose, instead of the company pension contribution, to receive a monthly cash amount less an amount equal to the employer's national insurance payable on the amount.

Alan Parker opted out of the pension scheme on 31 May 2005 and Angie Risley opted out of the pension scheme for future benefit accrual on 31 March 2006. Christopher Rogers opted out of the defined contribution pension scheme on 31 March 2006.

Details of the cash supplements for each executive director are provided later in this report on page 14.

Whitbread Leadership Group Incentive Scheme

The Whitbread Leadership Group Incentive Scheme was implemented during 2004/5.

The policy objectives of this scheme are:

- to provide a clear link between performance and reward, in order to motivate key executives;
- to place a greater emphasis on equity rewards promoting alignment with shareholders' interests; and
- to promote retention by deferring a significant part of the awards.

The Whitbread Leadership Group Incentive Scheme applies to over 40 executives. The levels of awards are graduated to reflect levels of responsibility.

Structure

Two types of awards can be made under the scheme following the end of the financial year, both of which are performance related. These are:

- a cash bonus that is immediately payable; and
- an award over Whitbread shares known as deferred equity, which will normally vest three years later provided that the executive remains employed by the Whitbread Group.

Levels of award

The normal levels of cash bonus and deferred equity payable under the Plan to executive directors at different levels of performance are:

Below threshold	Nil
Threshold	10% cash 20% deferred equity
On target	22.5% cash 50% deferred equity
Stretch*	55% cash 100% deferred equity

** the bonus amounts shown are the maximum amounts, even where the performance exceeds stretch.*

The percentages in the table are expressed as a percentage of the base salaries. A straight-line will operate between the above levels of performance.

Threshold will be the minimum target at which awards will be earned. Targeted level of performance will be consistent with budgeted performance, and stretch will be significantly above budget.

The 2008/9 cash bonus and deferred equity awards payable under the Leadership Group Incentive Scheme will be based on profit before tax. In addition, each strategic business unit as well as the Group has a ROCE target to achieve. Failure to achieve this target would result in a 25% reduction in any annual cash bonus and deferred equity payable for profit performance under the Scheme.

Each year the Board sets a series of profit targets for the Group and for each strategic business unit within the Group. The profit targets are set according to the commercial strategy of the Company at the start of the financial year under review.

At the end of the financial year, the profit results are calculated and the Remuneration Committee assesses each director against the pre-determined targets. The calculation of the awards is independently verified for the Committee by Hewitt New Bridge Street Consultants LLP.

WINcard award

In addition to the awards outlined above, a maximum of 20% of salary cash bonus will be payable, subject to achieving a minimum percentage of the profit target, for meeting WINcard targets (see page 8 of the Annual Review for details about the WINcard). These targets apply to all management throughout the Company, as well as the executive directors. The targets are set at the beginning of each financial year and, for directors, reviewed and approved by the Remuneration Committee after the year-end.

Long-term Incentive Plan (LTIP)

The executive directors, together with certain other senior executives, are eligible for an annual award under the LTIP. Alan Parker will be eligible for an award based on 125% of his base salary and Christopher Rogers an award based on 100% of his base salary.

These awards will, under normal circumstances, vest three years after the date of grant provided that the individual remains an employee and the performance conditions are met.

The performance conditions selected by the Remuneration Committee will apply separately to each half of the award and will be relative TSR and earnings per share growth. The Committee believes that these conditions closely align the interests of executives to those of shareholders.

The TSR comparator group comprises constituents of the FTSE 51-150 at the date of grant. This is regarded as the most appropriate group given the size of the Company. Performance will be measured over three financial years commencing with the financial year in which the award is made. Averaging will take place over a three-month period before the start and end of the performance period to reduce the impact of short-term share price fluctuations.

The vesting schedule for half of any grants made from 2007 is:

Position at which the Company is ranked	Vesting schedule
Upper quartile and above	Full vesting of half the award
Between median and upper quartile	Pro rata on a straight-line between quarter and full vesting of half the award
Median	Quarter of half the award vests
Below median	None

The vesting schedule for the other half of any awards made from 2007 is:

Whitbread's average annual EPS compound growth over three years	Vesting schedule
RPI +10% and above	Full vesting of half of the award
Between RPI +4% and RPI +10%	Pro rata on a straight-line between quarter and full vesting of half of the award
RPI +4%	Quarter of half of the award vests
Below RPI +4%	None

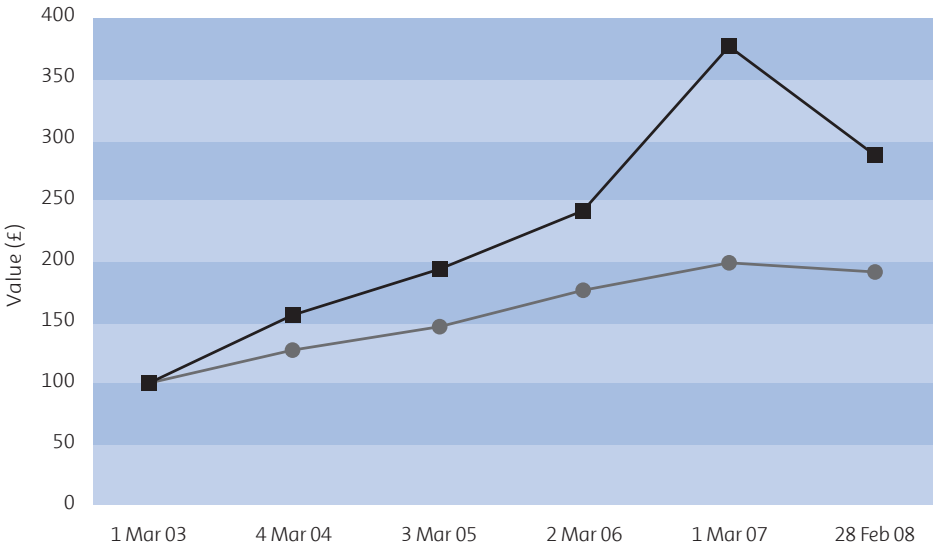
For the awards that were due to vest on 1 March 2008, i.e. those awards granted in 2005, the performance condition was relative TSR and was met in full, resulting in a vesting level of 100%. The comparator group comprised 24 comparators at the time of measurement and Whitbread was ranked fifth, which is upper quartile.

Directors – service contracts

The Remuneration Committee's policy is that all executive directors should have rolling contracts of employment with notice periods of 12 months.

Historical TSR performance

Source: Datastream



This graph looks at the value, by 28 February 2008, of £100 invested in Whitbread PLC on 1 March 2003 compared with that of £100 invested in the FTSE 100 Index based on 30 trading day average values.

Whitbread PLC — FTSE 100 Index

The commencement dates for the executive directors' contracts are as follows:

Alan Parker	1 September 1992
Christopher Rogers	1 May 2005

Chairman and non-executive directors

The dates of the letters of appointment for the Chairman and the non-executive directors are set out below and their respective letters of appointment are available for inspection at the Company's registered office.

Anthony Habgood	14 April 2005
Wendy Becker	17 January 2008
Philip Clarke	29 November 2005
Charles Gurassa	26 July 2000
Simon Melliss	23 March 2007
Stephen Williams	25 April 2008

Philip Clarke and Charles Gurassa will stand for re-election at the 2008 AGM.

Fees for non-executive directors are reviewed annually by the executive directors. The composition of annual fees is as follows:

Base fee	£55,000
Chair of Audit or Remuneration Committee	£10,000
Senior independent director	£10,000

Fees from external directorships

During the year the executive directors retained fees from external directorships as follows:

Alan Parker	£54,988
Christopher Rogers	£45,000

Directors' remuneration for the year to 28 February 2008 (audited information)
The table below shows a breakdown of the various elements of pay received by the directors for the period from 2 March 2007 to 28 February 2008:

	Basic salary	Cash in lieu of pension	Taxable benefits	Performance related awards*		**Total excluding pensions**	
				Cash	Deferred equity	**2007/8**	2006/7
	£	£	£	£	£	**£**	£
Chairman							
Anthony Habgood	291,667	–	–	–	–	**291,667**	250,000
Executive directors							
Alan Parker	691,992 [1]	177,545	5,017	483,975	675,000	**2,033,529**	1,913,948
Angie Risley	80,073 [1]	19,661	230	–	–	**99,964** [2]	796,875
Christopher Rogers	435,303 [1]	92,217	1,012	301,140	420,000	**1,249,672**	1,178,378
Non-executive directors							
Wendy Becker	6,693	–	–	–	–	**6,693** [2]	–
Philip Clarke	53,333	–	–	–	–	**53,333**	45,000
Margaret Ewing	22,917 [3]	–	–	–	–	**22,917** [2]	55,000
Charles Gurassa	63,333 [4]	–	–	–	–	**63,333**	55,000
Rod Kent	63,333 [5][6]	–	–	–	–	**63,333**	55,000
Simon Melliss	57,917 [3]	–	–	–	–	**57,917** [2]	–

Total emoluments for the year were £3,942,358. The total for 2006/7 was £4,349,201.

* The performance related awards include two cash elements (one of which is based on WINcard targets) and a deferred equity element described on page 12. In addition, Alan Parker and Christopher Rogers received awards under the Long-term Incentive Plan (LTIP) to the value of £843,750 and £420,000 respectively. The LTIP awards are conditional on the achievement of a combined TSR/EPS target described on page 13.

[1] *Includes a car allowance.*
[2] *Fees for part-year.*
[3] *Includes fees as Chairman of the Audit Committee for part of the year.*
[4] *Includes fees as Chairman of the Remuneration Committee.*
[5] *Includes fees as Senior Independent Director.*
[6] *In addition to these fees, Rod Kent received £20,000 as Chairman of Whitbread Pension Trustees Limited.*

Directors' pension entitlements (audited information)

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

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

Defined benefit

The defined benefit pension entitlements of the executive directors are as follows:

	Accumulated accrued benefits, 28 February 2008	Increase in accrued benefits during the year	Increase, before inflation, in accrued benefits during the year	Transfer value of increase, before inflation, less any directors' contributions
	£	£	£	£*
Alan Parker	**125,480**	5,975	1,315	24,799
Angie Risley	**127,121**	4,596	(182)†	(3,039)†

† This appears as a negative number because the increase in accrual was lower than the rate of inflation.

The transfer value* of each director's accrued benefits at the end of the financial year is as follows:

	28 February 2008	1 March 2007	Movement, less directors' contributions
	£	£	£ (1)
Alan Parker	**2,368,830**	2,322,780	46,050
Angie Risley	**2,119,261**	1,544,108	575,153

** Transfer values represent a liability of the pension fund, not a sum paid to the individual.*

(1) The movement in the transfer values during the year reflects both the changes in market conditions which define the assumptions to be used in calculating transfer values and the value of the change in the directors' accrued benefit during the year.

Alan Parker is entitled to a defined benefit pension under the Whitbread Group Pension Fund as set out in the table above. He also has an entitlement to a cash sum at retirement in lieu of his benefits from the Whitbread Group Unapproved Pension Scheme. As at 28 February 2008, he was entitled to an accrued lump sum of £4,686,339 (1 March 2007: £4,289,124). He also received a cash supplement of £177,545 during the year.

Angie Risley is entitled to a defined benefit pension under the Whitbread Group Pension Fund as set out in the table above. She received a cash supplement of £19,661 during the year. On leaving service on 22 May 2007 she became entitled to a cash sum at retirement of £40,288 in lieu of payments to the Group's money purchase scheme due during employment.

Defined contribution

Christopher Rogers received no employer pension contributions into the Group's money purchase scheme (1 March 2007: £2,640). He received a cash supplement of £92,217 during the year.

Deferred Bonus Plan ("the Plan") (audited information)
At 28 February 2008 the directors held the following deferred shares under the Plan:

Name	Year of award	Balance at 2/3/07	Awarded	Lapsed	Vested	Balance at 28/2/08*	Release date	Market price at award	Date award vested	Market price at vesting	Monetary value of vested award
Alan Parker	2004	6,831	–	–	6,831	–	6 May 2007	768.5p	6 May 2007	1,877.0p	£128,218
	2005	17,731	–	–	–	17,731	1 March 2008	904.3p	–	–	–
	2007	37,701	–	–	–	37,701	1 March 2010	1,671.0p	–	–	
	2008	–	53,716	–	–	53,716	1 March 2011	1,256.5p	–	–	–
		62,263	53,716	–	6,831	109,148					
Angie Risley	2004	6,994	–	–	6,994	–	6 May 2007	768.5p	6 May 2007	1,877.0p	£131,277
	2005	8,865	–	4,433	4,432	–	1 March 2008	904.3p	22 May 2007	1,909.0p	£84,607
		15,859	–	4,433	11,426	–					
Christopher Rogers	2007	23,563	–	–	–	23,563	1 March 2010	1,671.0p	–	–	–
	2008	–	33,423	–	–	33,423	1 March 2011	1,256.5p	–	–	–
		23,563	33,423	–	–	56,986					

** Or date of resignation from the Board.*

The awards are not subject to performance conditions and will vest in full on the release date subject to the director remaining an employee of Whitbread at that date. If the director ceases to be an employee of Whitbread prior to the release date by reason of redundancy, retirement, death, injury, ill health, disability or some other reason considered to be appropriate by the Remuneration Committee the awards will be released in full. If the director ceases to be an employee of Whitbread for any other reason, the proportion of award which vests depends upon the year in which the award was made and the date the director ceases to be an employee. For awards granted in 2007, 75% would lapse if the director leaves before 28 February 2009 and 50% would lapse if the director leaves between 1 March 2009 and February 2010. For awards granted in 2008, 50% would lapse if the director leaves before 28 February 2011.

Long-term Incentive Plan (LTIP) (audited information)

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

Name	Year of award	2/3/07	Awarded	Lapsed	Vested	28/2/08*	Conditional award granted	Performance period concludes	Market price at award	Date award vested	Market price at vesting	Monetary value of vested award
Alan Parker	2005	22,164	–	–	–	22,164	1/3/05	29/2/08	904.3p	–	–	–
	2007	47,127	–	–	–	47,127	1/3/07	28/2/10	1,671.0p			
	2008	–	67,145	–	–	67,145	1/3/08	28/2/11	1,256.5p	–	–	–
		69,291	67,145	–	–	136,436						–
Angie Risley	2005	11,082	–	11,082	–	–	1/3/05	29/2/08	904.3p	–	–	–
		11,082	–	11,082	–	–						
Christopher Rogers	2006	34,835	–	–	–	34,835	1/3/06	29/2/09	1,076.5p	–	–	–
	2007	29,454	–	–	–	29,454	1/3/07	28/2/10	1,671.0p	–	–	–
	2008	–	33,423	–	–	33,423	1/3/08	28/2/11	1,256.5p			
		64,289	33,423	–	–	97,712						–

**Or date of resignation from the Board.*

Participation in the LTIP is available to executive directors and senior executives. The LTIP aligns the long-term interests of participants with those of the Company and its shareholders and is designed to deliver superior performance from participants and to improve shareholder value. The LTIP rewards executives with shares rather than cash benefits. Awards are subject to a three-year performance period prior to vesting.

Information on the awards which vested in 2006/7

In the 2006/7 Annual Report it was reported that Alan Parker had made a notional gain of £393,524 upon the vesting of an LTIP award and Angie Risley had made a notional gain of £146,619. During 2007/8 both Alan Parker and Angie Risley exercised these nil-cost options and the actual gains made were £448,742 and £170,965 respectively.

Information on the awards made in 2005, 2006 and 2007

The 2005 and 2007 awards were made as part of the Whitbread Leadership Group Incentive Scheme. Executive directors were entitled to an award based on 25% of salary at the threshold level of performance, 62.5% at on target performance and 125% at stretch performance, with a straight line operating in between. The 2006 award was made to Christopher Rogers to reflect the fact that he was a recent joiner with a low level of equity incentives. Awards made in 2005 and 2006 are subject to a relative TSR performance condition. The awards will vest in part if the Company performs at median, increasing to full vesting for top quartile performance relative to the comparator group of companies. This means that at the 50th percentile, 25% of the award will vest and at the 75th percentile 100% of the award will vest, with a straight line operating in between. Awards made in 2007 are subject to a relative TSR condition for half of the award and an EPS growth target for the other half of the award.

Information on awards to be made in 2008

The awards made in 2008 will be calculated as a percentage of the directors' base salary. Alan Parker will receive an award to the value of 125% of his base salary and Christopher Rogers will receive an award to the value of 100% of his base salary. The awards will be subject to a relative TSR condition for half of the award and an EPS growth target for the other half of the award. Further details can be found on page 13.

Information on future awards

Details on the policy with regard to future awards under the LTIP can be found on pages 12 and 13.

Comparator groups

The comparator group for the awards made in 2005 comprised the constituents of the FTSE All Share Hotels and Leisure index with a market capitalisation of over £150 million as at 1 March 2005. The comparator group for the awards made in 2006 comprised the constituents of the Hotels, Restaurants & Bars and Recreational Services sub-sectors of the FTSE All Share Travel & Leisure Sector Index, with a market capitalisation of over £150 million. The comparator group for awards made in 2007 and 2008 comprise the constituents of the FTSE 51-150 at the date of the award.

Share options (audited information)

The Remuneration Committee has no plans to grant any further executive options. The last grant made under the Group's executive share option schemes was a one-off grant made on 23 May 2005 as disclosed in the 2004/5 Annual Report and Accounts. The performance target for this option required Whitbread to have earnings per share growth of RPI plus 12 % in 2007/8 compared to that for 2004/5. There was no opportunity to re-test the performance condition.

Options granted between 1997 and 2000 could not be exercised unless either adjusted EPS growth exceeded RPI plus 6% per annum over any three consecutive years during the life of the option or TSR exceeded the average of the FTSE 100 Index over the same period. For options granted between June 2000 and June 2003, the performance conditions required that the Group's adjusted earnings per share exceeded RPI plus 12% per annum measured over any three consecutive years out of the ten year performance period. For options granted in 2004, the performance target required Whitbread to have an adjusted earnings per share growth of RPI plus 12% in 2006/7 compared to that for 2003/4. Performance conditions have been satisfied in respect of all options granted between June 1997 and May 2005. Options granted between June 1997 and June 2004 are currently exercisable. The option granted in May 2005 will become exercisable on 23 May 2008.

Executive directors may also participate in the Group's Savings-related Share Option Scheme which is open to all employees on the same terms.

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

At 28 February 2008 the directors held the following share options under the executive share option schemes and the Savings-related Share Option Scheme. The earliest date on which any of the executive options could have been exercised was June 2005, with the latest being May 2015. Savings-related share options have a six-month exercise period.

Alan Parker	Number of shares	Date of grant	Exercise price	Exercise date	Last exercise date
Executive Share Option Schemes	50,000	10 June 2002	641.0p	June 05	June 12
	50,000	9 June 2003	642.5p	June 06	June 13
	80,000	17 May 2004	756.0p	May 07	May 14
Savings-related Share Option Scheme	677	29 November 2007	1,417.0p	February 11	July 11
Total number of shares under option	**180,677**	**(264,900 at 1 March 2007)**			

Angie Risley	Number	Date of grant	Exercise price	Exercise date	Last exercise date
Executive Share Option Schemes	50,000	17 May 2004	756.0p	May 07	May 14
Total number of shares under option	**50,000** [1]	**(58,572 at 1 March 2007)**			

Christopher Rogers	Number	Date of grant	Exercise price	Exercise date	Last exercise date
Executive Share Option Schemes	50,000	23 May 2005	841.0p	May 08	May 15
Savings-related Share Option Scheme	2,129	30 November 2005	756.0p	February 11	July 11
Total number of shares under option	**52,129**	**(52,129 at 1 March 2007)**			

[1] As at 22 May 2007, the date Angie Risley stepped down from the Board. Angie Risley exercised this option after leaving the Group.

Options exercised (audited information)
Executive Share Option Schemes

Name	Date of grant	Number granted	Option price	Exercise period	Exercise date	Number exercised	Price on exercise [1]	Gain (£)
Alan Parker	6 June 1997	5,000	778.5p	June 2000 to June 2007	8 May 2007	5,000	1,870.0p	54,575
	5 June 1998	25,300	1,027.0p	June 2001 to June 2008	19 July 2007	25,300	1,880.0p	215,809
	16 June 1999	4,600	1,101.0p	June 2002 to June 2009	23 October 2007	4,600	1,741.5p	29,461
	26 July 2001	50,000	661.4p	July 2004 to July 2011	23 October 2007	50,000	1,741.5p	540,030
Angie Risley	5 June 1998	2,200	1,027.0p	June 2001 to June 2008	24 April 2007	2,200	1,903.0p	19,272
	16 June 1999	5,100	1,101.0p	June 2002 to June 2009	24 April 2007	5,100	1,903.0p	40,902
	10 June 2002	36	641.0p	June 2005 to June 2012	24 April 2007	36	1,903.0p	454

The aggregate gain made by directors on the exercise of options was £900,503 (2006/7: £429,193).

The gains on exercise shown above relate to exercises whilst the directors were on the Board. After Angie Risley stepped down from the Board she made a total gain of £510,500 from the exercise of an executive option. An option over 1,236 shares held by Angie Risley under the Savings-related Share Option Scheme lapsed when she left the Company in May 2007.

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

Employee Share Ownership Trust (ESOT)
The Company funds an ESOT to enable it to acquire and hold shares for the LTIP, executive share option schemes and the Leadership Group Incentive Scheme. As at 23 April 2008, the ESOT held 824,255 shares. The executive directors each have a technical interest in these shares as potential beneficiaries of the trust. All dividends on shares in the ESOT are waived by the Trustee. During the period from 29 February 2008 to 27 April 2008, no director has exercised an option to call for the transfer of shares from the ESOT, with the exception of the automatic vesting of an award under the Leadership Group Incentive Scheme to Alan Parker on 3 March 2008.

Share price information
The mid-market price of Whitbread ordinary shares on 28 February 2008 was 1,312p (1 March 2007 – 1,632p). The highest and lowest price paid for ordinary shares during the year were 1,968p and 1,038p respectively.

Changes since 28 February 2008
There have been no changes in directors' interests in ordinary shares since 28 February 2008.

Signed and approved on behalf of the Board

Charles Gurassa
Chairman, Remuneration Committee

27 April 2008

Whitbread PLC
Consolidated accounts 2007/8

Directors' responsibility for the consolidated financial statements/ audit report

Statement of directors' responsibilities

The following statement, which should be read in conjunction with the auditor's statement of their responsibilities below, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditor in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each year which give a true and fair view of the state of affairs of the Group as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that, in preparing the financial statements on pages 22 to 61, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable Accounting Standards have been followed.

The directors have responsibility for ensuring that the Group keeps accounting records which disclose with reasonable accuracy the financial position of the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Responsibility statement

We confirm that, to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, 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, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Alan Parker
Chief Executive

Christopher Rogers
Finance Director

Independent auditor's report to the members of Whitbread PLC

We have audited the Group financial statements of Whitbread PLC for the year ended 28 February 2008 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Recognised Income and Expense, the Consolidated Cash Flow Statement and the related notes 1 to 37. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent Company financial statements of Whitbread PLC for the year ended 28 February 2008 and on the information in the Directors' Remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the Operating review that is cross-referred from the Directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Directors' report, the Chairman's Statement, the Chief Executive's review, the Finance Director's review and the Corporate Governance report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 28 February 2008 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the Group financial statements.

Ernst & Young LLP
Registered auditor
London

27 April 2008

Consolidated income statement

Year ended 28 February 2008

	Notes	Year to 28 February 2008 Before exceptional items £m	Exceptional items (note 6) £m	Total £m	Restated Year to 1 March 2007 Before exceptional items £m	Exceptional items (note 6) £m	Total £m
Continuing operations							
Revenue	3, 4	**1,216.7**	**–**	**1,216.7**	1,173.5	–	1,173.5
Cost of sales		**(185.5)**	**–**	**(185.5)**	(188.5)	–	(188.5)
Gross profit		**1,031.2**	**–**	**1,031.2**	985.0	–	985.0
Distribution costs		**(693.9)**	**(46.8)**	**(740.7)**	(681.9)	(4.3)	(686.2)
Administrative expenses		**(107.5)**	**(8.0)**	**(115.5)**	(99.0)	(20.8)	(119.8)
Operating profit/(loss)	4, 5	**229.8**	**(54.8)**	**175.0**	204.1	(25.1)	179.0
Share of loss from joint ventures	17	**(0.5)**	**–**	**(0.5)**	–	–	–
Share of profit from associate	18	**0.6**	**–**	**0.6**	0.6	–	0.6
Operating profit/(loss) of the Group, joint ventures and associate		**229.9**	**(54.8)**	**175.1**	204.7	(25.1)	179.6
Net profit on disposal of pub restaurants		**–**	**–**	**–**	–	196.6	196.6
Profit/(loss) before financing and tax		**229.9**	**(54.8)**	**175.1**	204.7	171.5	376.2
Finance costs	8	**(30.7)**	**(20.9)**	**(51.6)**	(40.1)	–	(40.1)
Finance revenue	3, 8	**11.1**	**–**	**11.1**	1.9	–	1.9
Profit/(loss) before tax		**210.3**	**(75.7)**	**134.6**	166.5	171.5	338.0
Tax (expense)/income	9	**(67.2)**	**15.9**	**(51.3)**	(55.8)	(77.0)	(132.8)
Net profit/(loss) from continuing activities		**143.1**	**(59.8)**	**83.3**	110.7	94.5	205.2
Discontinued operations							
Net profit on disposal of businesses		**–**	**440.8**	**440.8**	–	48.5	48.5
Profit/(loss) for the year from discontinued operations		**19.6**	**1.1**	**20.7**	40.4	(12.6)	27.8
	11	**19.6**	**441.9**	**461.5**	40.4	35.9	76.3
Profit for the year		**162.7**	**382.1**	**544.8**	151.1	130.4	281.5
Attributable to:							
Parent shareholders		**163.5**	**382.1**	**545.6**	151.4	130.4	281.8
Equity minority interest		**(0.8)**	**–**	**(0.8)**	(0.3)	–	(0.3)
		162.7	**382.1**	**544.8**	151.1	130.4	281.5

Earnings per share (note 12)

	Year to 28 February 2008 Continuing operations p	Total operations p	Restated Year to 1 March 2007 Continuing operations p	Total operations p
Earnings per share				
Basic for profit for the year	**44.42**	**288.22**	90.01	123.43
Diluted for profit for the year	**44.17**	**286.55**	89.31	122.47
Earnings per share before exceptional items				
Basic for profit for the year	**76.01**	**86.37**	48.62	66.32
Diluted for profit for the year	**75.58**	**85.87**	48.24	65.80

Consolidated statement of recognised income and expense

Year ended 28 February 2008

	Year to 28 February 2008 £m	Year to 1 March 2007 £m
Cash flow and net investment hedges:		
Loss taken to equity	**(4.5)**	(1.1)
Exchange differences on translation of foreign operations	**(0.8)**	(0.9)
Actuarial gains on defined benefit pension schemes	**95.5**	38.0
Tax on items taken directly to or from equity	**(29.3)**	(11.9)
Net gain recognised directly in equity	**60.9**	24.1
Profit for the year	**544.8**	281.5
Total recognised income and expense for the year	**605.7**	305.6
Attributable to:		
Parent shareholders	**606.5**	305.9
Equity minority interest	**(0.8)**	(0.3)
	605.7	305.6

Consolidated balance sheet

At 28 February 2008

	Notes	28 February 2008 £m	1 March 2007 £m
Assets			
Non-current assets			
Intangible assets	14	**125.2**	78.5
Property, plant and equipment	15	**2,127.4**	2,487.6
Investment in joint ventures	17	**3.5**	1.1
Investment in associate	18	**0.8**	0.9
Other financial assets	19	**0.9**	1.1
Derivative financial instruments	27	**–**	56.8
		2,257.8	2,626.0
Current assets			
Inventories	20	**13.2**	12.8
Trade and other receivables	21	**62.9**	67.5
Income tax prepayment		**–**	7.1
Derivative financial instruments	27	**–**	8.3
Cash and cash equivalents	22	**107.1**	70.5
		183.2	166.2
Assets classified as held for sale	11	**–**	59.1
Total assets		**2,441.0**	2,851.3
Liabilities			
Current liabilities			
Financial liabilities	23	**377.0**	86.3
Provisions	25	**30.9**	6.2
Derivative financial instruments	27	**1.8**	–
Income tax liabilities		**6.8**	–
Trade and other payables	29	**241.3**	287.1
		657.8	379.6
Non-current liabilities			
Financial liabilities	23	**155.9**	882.8
Preference shares	27	**–**	3.2
Provisions	25	**27.4**	15.2
Derivative financial instruments	27	**7.6**	5.9
Deferred income tax liabilities	9	**293.0**	309.5
Pension liability	35	**33.0**	196.0
Trade and other payables	29	**4.4**	–
		521.3	1,412.6
Total liabilities		**1,179.1**	1,792.2
Net assets		**1,261.9**	1,059.1
Equity			
Share capital	30	**148.8**	151.9
Share premium	31	**43.8**	38.1
Capital redemption reserve	31	**8.5**	4.7
Retained earnings	31	**3,205.9**	2,738.9
Currency translation reserve	31	**–**	0.8
Other reserves	31	**(2,145.1)**	(1,875.6)
Equity attributable to equity holders of the parent	31	**1,261.9**	1,058.8
Equity minority interest	31	**–**	0.3
Total equity	31	**1,261.9**	1,059.1

Alan Parker
Chief Executive

Christopher Rogers
Finance Director

27 April 2008

Consolidated cash flow statement

Year ended 28 February 2008

	Notes	Year to 28 February 2008 £m	Year to 1 March 2007 £m
Profit for the year		**544.8**	281.5
Adjustments for:			
Taxation charged on total operations	9	**58.0**	153.3
Net finance cost		**40.5**	37.4
Total loss from joint ventures		**0.7**	–
Total income from associate		**(0.6)**	(0.6)
Loss/(gain) on disposal of property, plant and equipment, and property reversions		**27.2**	(195.7)
Net profit on disposal of businesses and investments		**(440.8)**	(48.5)
Depreciation and amortisation		**89.0**	102.8
Impairment of property and goodwill		**–**	12.6
Pension credit		**(10.0)**	–
Reorganisation provision		**19.4**	–
Other non-cash items		**(6.7)**	(8.2)
Cash generated from operations before working capital changes		**321.5**	334.6
(Increase)/decrease in inventories		**(0.9)**	4.1
(Increase)/decrease in trade and other receivables		**(18.6)**	74.7
Decrease in trade and other payables		**(20.1)**	(4.0)
Payments against provisions		**(6.1)**	(8.7)
Payment to pension fund		**(50.0)**	(102.3)
Cash generated from operations		**225.8**	298.4
Interest paid		**(34.5)**	(39.3)
Taxes paid		**(25.8)**	(12.8)
Net cash flows from operating activities		**165.5**	246.3
Cash flows from investing activities			
Disposal of investments, subsidiaries and joint ventures – discontinued*	11	**984.3**	361.5
Purchase of property, plant and equipment		**(283.4)**	(241.2)
Purchase of intangible assets		**(1.3)**	(2.1)
(Costs)/proceeds from disposal of property, plant and equipment		**(0.3)**	487.6
Acquisition of subsidiaries, net of cash acquired	10	**(52.2)**	(2.7)
Capital contributions to joint ventures		**(1.6)**	–
Dividends from associate		**0.7**	–
Interest received		**4.2**	3.2
Net cash flows from investing activities		**650.4**	606.3
Cash flows from financing activities			
Proceeds from issue of share capital		**6.4**	7.6
Costs of purchasing own shares		**(354.6)**	(275.8)
Repayment of preference shares		**(3.3)**	–
Increase in short-term borrowings		**(42.7)**	26.1
Proceeds from long-term borrowings		**–**	49.1
Repayment of long-term borrowings		**(376.8)**	(123.4)
Dividends paid	13	**(60.7)**	(529.0)
Net cash flows used in financing activities		**(831.7)**	(845.4)
Net (decrease)/increase in cash and cash equivalents		**(15.8)**	7.2
Net foreign exchange difference		**–**	(1.2)
Opening cash and cash equivalents		**36.1**	30.1
Closing cash and cash equivalents	22	**20.3**	36.1
Reconciliation to cash and cash equivalents in the balance sheet			
Cash and cash equivalents shown above		**20.3**	36.1
Add back overdrafts		**86.8**	34.4
Cash and cash equivalents shown within current assets on the balance sheet		**107.1**	70.5

** including disposed of net overdraft*

Notes to the consolidated financial statements

At 28 February 2008

1 Authorisation of financial statements and statement of compliance with IFRS

The consolidated financial statements of Whitbread PLC for the year ended 28 February 2008 were authorised for issue by the Board of Directors on 27 April 2008. 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.

The Group's financial statements 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 1985.

2 Accounting policies

Basis of preparation

The consolidated financial statements of Whitbread PLC and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRSs) as applied in accordance with the provisions of the Companies Act 1985.

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.

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 within these financial statements using the equity method of accounting. These are adjusted, where appropriate, to conform to Group accounting policies. The financial statements of subsidiaries are prepared for the same reporting year as the parent Company.

Apart from the acquisition of Whitbread Group PLC by Whitbread PLC in 2000/1, which was accounted for using merger accounting, acquisitions by the Group are accounted for under the acquisition method and any goodwill arising is capitalised as an intangible asset. The results of subsidiaries acquired or disposed of during the year are included in the consolidated accounts 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.

The income statement for the comparative period has been restated to reflect the disposal of the interest in David Lloyd Leisure Limited, which has been classified as a discontinued operation.

Significant accounting policies

Goodwill

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

Intangible assets

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

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

With the exception of overseas trading licences, which are deemed to have an infinite life, intangible assets are amortised over periods of up to 10 years. The carrying values are reviewed for impairment if events or changes in circumstances indicate that they may not be recoverable.

Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

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

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

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.

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.

Exceptional items
The Group presents on the face of the income statement those items which are separately identified by virtue of their size or incidence so as to allow a better understanding of the underlying trading performance of the Group.

The Group includes the profit or loss on disposal of property, plant and equipment, property reversions and impairment in exceptional items.

Notes to the consolidated financial statements

At 28 February 2008

2 Accounting policies (continued)

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 taken directly to equity. 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 euro functional currency. These are translated into sterling in the Group accounts. Balance sheet items are translated at the rate applicable at the balance sheet date. Transactions reported in the income statement are translated using an average rate for the month in which they occur.

Revenue recognition

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

Sale of goods

Revenue from the sale of food and beverages is recognised when they are sold.

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

Royalties

Royalties are recognised as the income is earned.

Rendering of services

Owned hotel revenue, including the rental of rooms and food and beverage sales from a network of hotels, is recognised when rooms are occupied and food and beverage is sold.

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 income 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, under the allowed alternative treatment, 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 statement of recognised income and expense.

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

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

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

2 Accounting policies (continued)

Share-based payment transactions

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 are fulfilled, ending on the relevant vesting date. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired, and is adjusted to reflect the directors' best available estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

Deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary timing 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.

Tax relating to items recognised directly in equity is recognised in equity and not 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

Available-for-sale financial assets

Investments in available-for-sale assets are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition available-for-sale investments are measured at fair value. Gains and losses arising from changes in the fair value of available-for-sale investments are recognised directly in equity, until the investment is disposed of or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included within finance revenue or costs in the income statement.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its fair value is transferred from equity to the income statement. Reversals of impairment losses on debt instruments are recognised in the income statement, if the loss can be objectively related to an event occurring after the impairment loss was recognised. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement.

Financial assets at fair value through profit or loss

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

Notes to the consolidated financial statements

At 28 February 2008

2 Accounting policies (continued)

Loans and receivables

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

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

Cash and cash equivalents

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

Derivative financial instruments

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

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. Gains or losses from remeasuring fair value hedges, which meet the conditions for hedge accounting, are recorded in the income statement, together with the corresponding changes in the fair value of the hedged instruments attributable to the hedged risk. Where the adjustment is to the carrying amount of a hedged financial instrument, the adjustment is amortised to the income statement such that it is fully amortised by maturity.

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 equity. The gains or losses relating to the ineffective portion are recognised immediately in the income statement.

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.

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses relating to the effective portion are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to the income statement.

Borrowings

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

Significant accounting judgements and estimates

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

The Group determines whether goodwill is impaired at least on an annual basis, and property, plant and equipment where there is indication of impairment. This requires an estimation of the value in use of the CGUs. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present values of those cash flows. The carrying values of goodwill are disclosed in more detail in note 14.

2 Accounting policies (continued)
Note 16 describes the assumptions used in impairment testing of property, plant and equipment.

Note 35 describes the assumptions used in accounting for retirement benefit obligations.

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

IFRS 8 Operating segments
IFRS 8 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2009. The standard sets out requirements for disclosure of information about an entity's operating segments, its products and services, the geographical areas in which it operates, and its major customers. The standard replaces IAS 14, with revised requirements for the identification, measurement and disclosure of segment information. The impact of this IFRS on the Group's financial statements is not expected to be material.

IAS 23 Borrowing costs
A revised IAS 23 was issued in March 2007 and becomes effective for annual periods beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. This IAS is not expected to have any impact on the Group as interest is already being capitalised under the previously allowed alternative treatment.

IFRIC 13 Customer loyalty programmes
IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. Where these award credits are collected on behalf of a third party, they should not be disclosed as revenue. The Group operates loyalty schemes using a third party but the impact of the change is not expected to be material.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Group expects that this Interpretation will have no impact on the financial position or performance of the Group as all defined benefit schemes are currently in deficit.

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

	2007/8 £m	Restated 2006/7 £m
Rendering of services	**527.8**	458.5
Royalties	**6.3**	4.4
Sale of goods	**682.6**	710.6
Revenue	**1,216.7**	1,173.5
Finance revenue	**11.1**	1.9
Total revenue	**1,227.8**	1,175.4

4 Segment information
The Group's primary reporting format is business segments and its secondary format is geographical segments. The Group operates mainly within the UK and as such the secondary format of geographical segments is not presented.

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group has three core areas of operation:

Operation	Nature of operation
Premier Inn	Operation of budget hotels
Pub Restaurants	Operation of full service and self service pub restaurants
Costa	Operation of coffee shops

Prior year comparatives have been restated to include David Lloyd Leisure Limited as a discontinued operation. Discontinued operations also include TGI Friday's (see note 11).

Inter-segment revenue is from Costa to the other segments. Transactions were entered into on an arm's length basis in a manner similar to transactions with third parties. Included within unallocated operations are those that are managed by a central division.

The unallocated assets and liabilities are cash and debt balances held and controlled by the central treasury function.

Notes to the consolidated financial statements

At 28 February 2008

4 Segment information (continued)

The following tables present revenue and profit information and certain asset and liability information regarding business segments for the years ended 28 February 2008 and 1 March 2007.

Year ended 28 February 2008	Premier Inn £m	Pub Restaurants £m	Costa £m	Unallocated and elimination £m	Total continuing operations £m	Discontinued operations £m	Total operations £m
Revenue							
Revenue from external customers	527.8	446.1	213.9	28.9	1,216.7	103.4	1,320.1
Inter-segment revenue	–	–	2.4	(2.4)	–	–	–
Total revenue	527.8	446.1	216.3	26.5	1,216.7	103.4	1,320.1
EBIT[1]	178.0	55.5	20.8	(24.4)	229.9	27.4	257.3
Add back loss made by minority interest	–	–	0.8	–	0.8	–	0.8
EBIT attributable to shareholders	178.0	55.5	21.6	(24.4)	230.7	27.4	258.1
EBIT attributable to shareholders	178.0	55.5	21.6	(24.4)	230.7	27.4	258.1
Segment exceptional items:							
Net loss on disposal of property, plant and equipment, and property reversions	–	(2.9)	(1.6)	(22.7)	(27.2)	–	(27.2)
Premier Inn rebranding	(7.0)	–	–	–	(7.0)	–	(7.0)
Aborted bond issue	–	–	–	(9.4)	(9.4)	–	(9.4)
Outsourcing of logistics	–	–	–	(12.6)	(12.6)	–	(12.6)
Net surplus arising on change of pension scheme rules	–	–	–	10.0	10.0	–	10.0
Reorganisation	–	–	–	(8.6)	(8.6)	–	(8.6)
Share of loss from joint ventures	0.5	–	–	–	0.5	0.2	0.7
Share of profit from associate	(0.6)	–	–	–	(0.6)	–	(0.6)
Profit attributable to minority interest	–	–	(0.8)	–	(0.8)	–	(0.8)
Segment result	170.9	52.6	19.2	(67.7)	175.0	27.6	202.6
Operating profit					175.0	27.6	202.6
Share of loss from joint ventures					(0.5)	(0.2)	(0.7)
Share of profit from associate					0.6	–	0.6
Non-operating exceptionals:							
Net profit on disposal of businesses and investments					–	440.8	440.8
Exceptional interest charge					(20.9)	–	(20.9)
Profit before financing and tax					154.2	468.2	622.4
Net finance costs					(19.6)	–	(19.6)
Profit before tax					134.6	468.2	602.8
Tax expense					(51.3)	(6.7)	(58.0)
Profit for the year					83.3	461.5	544.8
Assets and liabilities							
Segment assets	1,443.7	679.6	97.2	–	2,220.5	–	2,220.5
Investment in joint ventures	2.8	–	0.7	–	3.5	–	3.5
Investment in associate	0.8	–	–	–	0.8	–	0.8
Unallocated assets	–	–	–	216.2	216.2	–	216.2
Total assets	1,447.3	679.6	97.9	216.2	2,441.0	–	2,441.0
Segment liabilities	(67.9)	(48.4)	(25.3)	–	(141.6)	–	(141.6)
Unallocated liabilities	–	–	–	(1,037.5)	(1,037.5)	–	(1,037.5)
Total liabilities	(67.9)	(48.4)	(25.3)	(1,037.5)	(1,179.1)	–	(1,179.1)
Net assets	1,379.4	631.2	72.6	(821.3)	1,261.9	–	1,261.9
Other segment information							
Capital expenditure:							
Property, plant and equipment – cash basis	147.3	79.0	33.2	9.5	269.0	14.4	283.4
Property, plant and equipment – accruals basis	148.6	79.6	33.4	7.3	268.9	15.2	284.1
Intangible assets	50.3	–	0.6	–	50.9	0.5	51.4
Depreciation	41.7	23.6	13.5	1.9	80.7	5.6	86.3
Amortisation	0.2	–	–	2.3	2.5	0.2	2.7

[1] *EBIT shows the segment result before exceptional items. It is profit before financing and tax and exceptional items.*

4 Segment information (continued)

Year ended 1 March 2007 (restated)	Premier Inn £m	Pub Restaurants £m	Costa £m	Unallocated and elimination £m	Total continuing operations £m	Discontinued operations £m	Total operations £m
Revenue							
Revenue from external customers	458.5	518.9	172.3	23.8	1,173.5	350.8	1,524.3
Inter-segment revenue	–	–	2.8	(2.8)	–	–	–
Total revenue	458.5	518.9	175.1	21.0	1,173.5	350.8	1,524.3
EBIT[1]	156.2	52.3	17.8	(21.6)	204.7	54.4	259.1
Add back loss made by minority interest	–	–	0.3	–	0.3	–	0.3
EBIT attributable to shareholders	156.2	52.3	18.1	(21.6)	205.0	54.4	259.4
EBIT attributable to shareholders	156.2	52.3	18.1	(21.6)	205.0	54.4	259.4
Segment exceptional items:							
Net profit/(loss) on disposal of property, plant and equipment, and property reversions	(0.2)	0.7	(0.5)	0.7	0.7	(1.6)	(0.9)
Net release of provision	–	–	–	–	–	8.2	8.2
Impairment of property and other assets	–	(1.8)	(1.2)	(1.4)	(4.4)	(8.2)	(12.6)
Provision for loan write down	–	–	–	–	–	(5.3)	(5.3)
Reorganisation	–	–	–	(21.4)	(21.4)	–	(21.4)
Share of profit from associates	(0.6)	–	–	–	(0.6)	–	(0.6)
Profit attributable to minority interest	–	–	(0.3)	–	(0.3)	–	(0.3)
Segment result	155.4	51.2	16.1	(43.7)	179.0	47.5	226.5
Operating profit					179.0	47.5	226.5
Share of profit from associates					0.6	–	0.6
Non-operating exceptionals:							
Net profit on disposal of pub restaurants					196.6	–	196.6
Net profit on disposal of businesses and investments					–	48.5	48.5
Profit before financing and tax					376.2	96.0	472.2
Net finance costs					(38.2)	0.8	(37.4)
Profit before tax					338.0	96.8	434.8
Tax expense					(132.8)	(20.5)	(153.3)
Profit for the year					205.2	76.3	281.5
Assets and liabilities							
Segment assets	1,267.9	622.1	75.4	–	1,965.4	633.4	2,598.8
Investment in joint ventures	1.1	–	–	–	1.1	–	1.1
Investment in associates	0.9	–	–	–	0.9	–	0.9
Unallocated assets	–	–	–	250.5	250.5	–	250.5
Total assets	1,269.9	622.1	75.4	250.5	2,217.9	633.4	2,851.3
Segment liabilities	(50.9)	(61.5)	(18.5)	–	(130.9)	(56.5)	(187.4)
Unallocated liabilities	–	–	–	(1,604.8)	(1,604.8)	–	(1,604.8)
Total liabilities	(50.9)	(61.5)	(18.5)	(1,604.8)	(1,735.7)	(56.5)	(1,792.2)
Net assets	1,219.0	560.6	56.9	(1,354.3)	482.2	576.9	1,059.1
Other segment information							
Capital expenditure:							
Property, plant and equipment – cash basis	119.6	58.0	23.0	4.7	205.3	35.9	241.2
Property, plant and equipment – accruals basis	124.1	61.8	24.9	4.1	214.9	37.2	252.1
Intangible assets	–	–	0.3	–	0.3	1.8	2.1
Depreciation	35.0	27.0	10.6	2.3	74.9	25.4	100.3
Amortisation	–	–	–	2.5	2.5	–	2.5

[1] *EBIT shows the segment result before exceptional items. It is profit before financing and tax and exceptional items.*

Notes to the consolidated financial statements

At 28 February 2008

5 Group operating profit

This is stated after charging/(crediting):

	2007/8 £m	Restated 2006/7 £m
Minimum lease payments recognised as an operating lease expense	**65.7**	53.8
Contingent rents	**6.7**	5.3
Operating lease payments	**72.4**	59.1
Amortisation of intangible assets (note 14)	**2.7**	2.5
Depreciation of property, plant and equipment (note 15)	**86.3**	100.3
Cost of inventories recognised as an expense	**184.3**	180.6
Employee benefits expense (note 7)	**365.3**	352.3
Net foreign exchange differences	**(0.1)**	–
Principal auditor's fees		
Audit fee	**0.6**	0.6
Non-audit:		
Audit of associate	**–**	0.2
Audit related services	**0.2**	0.1
Tax services	**0.1**	0.1
Corporate finance services	**1.2**	–
	2.1	1.0

6 Exceptional items

	2007/8 £m	Restated 2006/7 £m
Continuing activities		
Reorganisation costs[1]	**(8.6)**	(21.4)
Impairment of property, plant and equipment (note 16)	**–**	(4.4)
Net (loss)/profit on disposal of property, plant and equipment, and property reversions	**(27.2)**	0.7
Premier Inn rebranding[2]	**(7.0)**	–
Aborted bond issue[3]	**(9.4)**	–
Outsourcing of logistics[4]	**(12.6)**	–
Net surplus arising on change of pension scheme rules[5]	**10.0**	–
Operating exceptional items	**(54.8)**	(25.1)
Net profit on disposal of pub restaurants	**–**	196.6
Interest on exceptional tax[6]	**(6.7)**	–
Interest cost of early redemption of debentures[7]	**(14.2)**	–
	(75.7)	171.5
Tax on continuing exceptional items	**15.6**	(77.0)
Exceptional tax items[6]	**(21.2)**	–
Deferred tax relating to UK tax rate change	**21.5**	–
Total continuing exceptional items	**(59.8)**	94.5
Discontinued activities		
Impairment of property, plant and equipment (note 16)	**–**	(8.2)
Net loss on disposal of property, plant and equipment, and property reversions	**–**	(1.6)
Warranty and onerous contract provisions	**–**	8.2
Provision for loan write-down	**–**	(5.3)
Operating exceptional items	**–**	(6.9)
Net profit on disposal of businesses (note 11)	**440.8**	48.5
	440.8	41.6
Tax on discontinued exceptional items	**1.1**	(5.7)
Total discontinued exceptional items	**441.9**	35.9
Total exceptional items	**382.1**	130.4

Distribution costs include rebranding costs of £7.0m, logistics outsourcing costs of £12.6m and loss on disposals of property, plant and equipment, and property reversions of £27.2m. Administrative expenses include reorganisation costs of £8.6m, aborted bond costs of £9.4m and a pension credit of £10.0m.

6 Exceptional items (continued)

1. *During the year, the Group sold its interests in David Lloyd Leisure Limited and TGI Friday's. A review of overheads was subsequently carried out and it was announced that the Pub Restaurants and Hotels divisions would merge and that the shared service teams would be disbanded. In 2006/7, the disposal of 235 pub restaurants led to a restructuring to reflect the resultant shape of the Group.*

2. *Premier Inn rebranding costs relate to asset write-off and brand relaunch costs. The costs will continue into 2008/9.*

3. *Uncertainties in the debt market have put the planned bond issue on hold and the Group has written off the bank and advisory fees associated with this refinancing.*

4. *A restructuring provision in respect of the outsourcing of the Group's logistics operation has been created. This consists of project, redundancy and property related costs.*

5. *This is the impact of new arrangements for commutation of pension rights on retirement into cash following a change in government limits.*

6. *Exceptional tax relates to significant adjustments to prior year deferred and current tax liabilities. The associated interest arising on late payment of an item claimed in a previous year, which had been disputed, is included in exceptional interest charges.*

7. *This is a combination of a premium paid to debenture holders arising on early redemption and the income from closing out the associated interest rate swaps.*

7 Employee benefits expense

	2007/8 £m	Restated 2006/7 £m
Wages and salaries	**344.4**	322.8
Social security costs	**23.9**	22.6
Pension costs	**(3.0)**	6.9
	365.3	352.3

Included in wages and salaries is a total expense of share-based payments of £4.7m (2006/7: £5.2m), all of which arises from transactions accounted for as equity-settled share-based payments. Pension costs include an exceptional credit of £10.0m to reflect new arrangements for commutation of pension rights on retirement into cash.

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

	2007/8	Restated 2006/7
Continuing operations		
Premier Inn	**8,677**	8,044
Pub Restaurants	**10,777**	13,633
Costa	**3,787**	3,213
Unallocated	**818**	863
Total continuing	**24,059**	25,753
Discontinued operations	**3,082**	5,950
Total	**27,141**	31,703

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

Details of directors' emoluments are disclosed in the Remuneration report on pages 11 to 19.

Notes to the consolidated financial statements

At 28 February 2008

8 Finance (costs)/revenue

	2007/8 £m	Restated 2006/7 £m
Finance costs		
Bank loans and overdrafts	**(22.6)**	(16.4)
Other loans	**(9.3)**	(24.5)
Interest capitalised	**1.3**	1.3
	(30.6)	(39.6)
Net pension finance charge (note 35)	**–**	(0.5)
Impact of cash flow hedge	**(0.1)**	–
Finance costs before exceptional items	**(30.7)**	(40.1)
Exceptional finance costs (note 6)	**(20.9)**	–
Total finance costs	**(51.6)**	(40.1)
Finance revenue		
Bank interest receivable	**3.8**	1.1
Income from investments	**0.3**	0.2
	4.1	1.3
Net pension finance revenue (note 35)	**7.0**	–
Impact of cash flow and fair value hedges	**–**	0.6
Total finance revenue	**11.1**	1.9

9 Taxation

Consolidated income statement for continuing operations	2007/8 £m	Restated 2006/7 £m
Major components of the tax charge for continuing operations for the years ended 28 February 2008 and 1 March 2007 are:		
Current tax:		
Current tax expense	**14.7**	16.8
Adjustments in respect of current tax of previous periods	**15.7**	(0.3)
	30.4	16.5
Deferred tax:		
Origination and reversal of temporary differences	**36.4**	116.3
Adjustments in respect of previous periods	**6.0**	–
Change in UK tax rate	**(21.5)**	–
	20.9	116.3
Tax reported in the consolidated income statement for continuing operations	**51.3**	132.8

Consolidated statement of recognised income and expense	2007/8 £m	Restated 2006/7 £m
Pensions	**29.3**	11.9
Tax reported in equity	**29.3**	11.9

9 Taxation (continued)

A reconciliation of the tax charge applicable to profit from operating activities before tax at the statutory tax rate to the actual tax charge at the Group's effective tax rate for the years ended 28 February 2008 and 1 March 2007 respectively is as follows:

	2007/8 £m	Restated 2006/7 £m
Accounting profit before tax from continuing operations	**134.6**	338.0
Accounting profit before tax from discontinued operations	**468.2**	96.8
Profit reported in the consolidated income statement	**602.8**	434.8
Tax at current UK tax rate of 30% (2007: 30%)	**180.8**	130.4
Effect of different tax rates in overseas companies	**0.2**	–
Effect of joint ventures and associate	**0.5**	(0.2)
(Income not taxable)/expenditure not allowable	**(122.2)**	11.9
Adjustments to tax expense in respect of previous years	**0.2**	7.0
Adjustments to deferred tax expense in respect of previous years	**(17.1)**	4.2
Exceptional tax charge in respect of previous years	**15.6**	–
	58.0	153.3
Tax expense reported in the consolidated income statement for continuing operations	**51.3**	132.8
Tax expense attributable to discontinued operations	**6.7**	20.5
	58.0	153.3

Deferred tax

Deferred tax at 28 February 2008 relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2008 £m	2007 £m	2007/8 £m	Restated 2006/7 £m
Deferred tax liabilities				
Accelerated capital allowances	**93.6**	102.3	**13.2**	2.2
Rolled over gains and property revaluations	**211.4**	272.6	**(11.2)**	76.0
Gross deferred tax liabilities	**305.0**	374.9		
Deferred tax assets				
Pensions	**(9.2)**	(58.8)	**20.3**	30.9
Tax losses	**–**	(2.8)	**–**	(1.2)
Other	**(2.8)**	(3.8)	**(1.4)**	8.4
Gross deferred tax assets	**(12.0)**	(65.4)		
Deferred tax expense			**20.9**	116.3
Net deferred tax liability	**293.0**	309.5		

Total deferred tax liabilities released as a result of disposals during the year was £65.0m (2007: £4.3m).

The Group has not provided for any deferred tax that would be payable were it to remit the earnings of overseas subsidiaries of £1.8m (2007: £3.1m).

Tax relief on total interest capitalised amounts to £0.5m (2007: £0.5m).

The Finance Act 2007 reduced the rate of Corporation Tax to 28% with effect from 1 April 2008. The effect of the reduced rate is a credit of £21.5m.

Further UK tax changes, subject to future enactment, are a reduction in the rate of capital allowances applicable to plant and machinery from 25% to 20% on a reducing balance basis, a new category of integral features qualifying for capital allowances at 10% on a reducing balance basis and the phased abolition of allowances for hotel buildings.

Notes to the consolidated financial statements

At 28 February 2008

10 Business combinations

On 26 September 2007, the Group acquired six hotels, previously trading under the Tulip Inn and Golden Tulip brands, for £41.7m. These hotels, which have now been rebranded as Premier Inn, were purchased through the acquisition of 100% of the share capital of Golden Tulip (UK) Limited and Pilot Hotels Limited. The consideration, which included the discharge of certain existing debt, was paid in cash and loan notes on completion. In addition to the six trading hotels, the Group acquired secure arrangements on a further nine pipeline sites that will lead to the signing of operating leases on completion of the hotel premises.

From the date of acquisition, the hotels have contributed a loss of £2.7m to the net profit of the Group. If the acquisition had taken place at the beginning of the year, the profit for the Group would have been reduced by £2.6m and the revenue from continuing operations would have been increased by £19.2m.

Through its purchase of the former Tulip hotels, the Group has acquired the economic benefits of 771 additional guest bedrooms in the year with a further 1,300 from pipeline sites.

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

	Book value £m	Provisional fair value to Group £m
Intangible assets	3.4	–
Property, plant and equipment (note 15)	1.3	1.3
Inventories	0.1	0.1
Trade and other receivables	4.7	3.6
Overdrafts and loans	(5.6)	(5.6)
Trade and other payables	(4.7)	(9.6)
Deferred tax	(0.5)	(0.5)
Net liabilities	(1.3)	(10.7)
Goodwill arising on acquisition (note 14)		49.6
Total consideration		**38.9**
Cash flow on acquisition:		
Overdrafts and loans acquired		(5.6)
Cash paid		(38.9)
Net cash outflow		**(44.5)**

The consideration includes £2.0m of costs associated with the acquisition, paid in cash.

On 14 February 2008, the Group acquired the Belgrave Hotel Limited under a share purchase agreement for the sum of £7.5m. This hotel is now closed and will be rebranded as a Premier Inn. The consideration, which included the discharge of certain existing debt, was paid in cash on completion.

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

	Book value £m	Provisional fair value to Group £m
Intangible assets	0.2	–
Property, plant and equipment (note 15)	2.2	7.4
Cash	0.2	0.2
Overdrafts and loans	(0.8)	(0.8)
Trade and other payables	(0.4)	(0.4)
Net assets	1.4	6.4
Goodwill arising on acquisition (note 14)		0.5
Total consideration		**6.9**
Cash flow on acquisition:		
Overdrafts and loans acquired		(0.8)
Cash paid		(6.9)
Net cash outflow		**(7.7)**

11 Discontinued operations

On 2 March 2007, the Group completed the sale of its TGI Friday's business to a joint venture between Carlson Restaurants Worldwide and ABN Amro for an aggregate price of £70.4m. The transaction resulted in a profit on disposal of £13.0m before tax.

On 2 August 2007, the Group sold its interest in David Lloyd Leisure Limited to Versailles Bidco (a company owned by London & Regional Holdings Limited and Bank of Scotland Corporate) for £925.0m, generating a profit on disposal of £400.8m before tax.

Other disposals include the disposal of former Marriott properties and a related deferred tax liability.

The investments described above have been reported within discontinued operations for the years presented.

The effect of the disposals during the year is as follows:

	TGI Friday's £m	David Lloyd Leisure £m	Other £m	Total £m
Sale proceeds	70.4	925.0	3.5	998.9
Working capital adjustments	(0.6)	4.7	–	4.1
Total proceeds	69.8	929.7	3.5	1,003.0
Total net assets sold	(54.3)	(512.9)	22.5	(544.7)
Costs of disposal	(2.5)	(16.0)	1.0	(17.5)
Net profit on disposal of businesses, before tax	**13.0**	**400.8**	**27.0**	**440.8**
Sale proceeds are made up as follows:				
Cash	69.8	677.1	3.5	750.4
Repayment of inter-company debt	–	252.6	–	252.6
Total consideration	**69.8**	**929.7**	**3.5**	**1,003.0**

On the face of the cash flow, disposals of subsidiaries and investments reported as discontinued operations are the net of cash proceeds of £1,003.0m and the cash costs of disposal of £18.7m.

Total net assets sold comprises the following assets and liabilities:

	Total £m
Intangible assets	2.0
Property, plant and equipment	569.6
Inventories	0.6
Trade and other receivables	14.7
Cash	5.1
Assets classified as held for sale	54.3
Total assets sold	646.3
Trade and other payables	(35.1)
Loan capital	(1.5)
Deferred tax liability	(63.4)
Provisions	(1.6)
Total liabilities sold	(101.6)
Total net assets sold	**544.7**

Cash flows relating to discontinued operations are as follows:

	Year to 28 February 2008 £m	Restated Year to 1 March 2007 £m
Net cash (outflows)/inflows from operating activities	**(0.1)**	67.7
Net cash outflows from investing activities	**(29.2)**	(43.4)
Net (decrease)/increase in cash and cash equivalents	**(29.3)**	24.3

Notes to the consolidated financial statements

At 28 February 2008

11 Discontinued operations (continued)

Profit for the year from discontinued operations is made up as follows:

	Year to 28 February 2008			Restated
	Before exceptional items £m	Exceptional items (note 6) £m	Total £m	Year to 1 March 2007 £m
Revenue	103.4	–	103.4	350.8
Cost of sales	(4.5)	–	(4.5)	(47.4)
Gross profit	98.9	–	98.9	303.4
Distribution costs	(63.1)	–	(63.1)	(213.7)
Administrative expenses	(8.2)	–	(8.2)	(42.2)
Operating profit	27.6	–	27.6	47.5
Share of loss from joint ventures	(0.2)	–	(0.2)	–
Operating profit of the Group including joint venture result	27.4	–	27.4	47.5
Exceptional items (note 6):				
Net profit on disposal of businesses	–	440.8	440.8	48.5
Profit before financing and tax	27.4	440.8	468.2	96.0
Finance costs	(0.1)	–	(0.1)	–
Finance income	0.1	–	0.1	0.8
Profit before tax	27.4	440.8	468.2	96.8
Income tax expense:				
Related to pre-tax profit	(7.8)	–	(7.8)	(14.8)
Related to exceptional pre-tax profit	–	–	–	1.3
Related to disposals	–	1.1	1.1	(7.0)
Profit for the year from discontinued operations	19.6	441.9	461.5	76.3

Assets classified as held for sale

The major classes of assets classified as held for sale and measured at the lower of carrying amount and fair value less cost to sell are as follows:

	2008 £m	2007 £m
Assets		
Property, plant and equipment	–	56.8
Inventories	–	0.6
Trade and other receivables	–	1.7
Total assets	–	59.1

12 Earnings per share

	Year to 28 February 2008			Restated Year to 1 March 2007		
	Continuing operations p	Discontinued operations p	Total p	Continuing operations p	Discontinued operations p	Total p
Basic for profit for the year	**44.42**	**243.80**	**288.22**	90.01	33.42	123.43
Attributable to exceptional items – gross	39.99	(232.86)	(192.87)	(75.12)	(18.21)	(93.33)
Attributable to exceptional items – taxation	(8.40)	(0.58)	(8.98)	33.73	2.49	36.22
Basic for profit before exceptional items for the year	**76.01**	**10.36**	**86.37**	48.62	17.70	66.32
Diluted for profit for the year	**44.17**	**242.38**	**286.55**	89.31	33.16	122.47
Diluted for profit before exceptional items for the year	**75.58**	**10.29**	**85.87**	48.24	17.56	65.80

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

The diluted earnings per share figures allow for the dilutive effect of the conversion into ordinary shares of the weighted average number of options outstanding during the period. Where the share price at the year end is lower than the option price the options become anti-dilutive and are excluded from the calculation. The number of such options was 320,079 (2007: nil).

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

	2007/8 million	2006/7 million
Basic weighted average number of ordinary shares	**189.3**	228.3
Effect of dilution – share options	**1.1**	1.8
Diluted weighted average number of ordinary shares	**190.4**	230.1

The total number of shares in issue at the year end, used in the calculation of the basic weighted average number of ordinary shares, was 193.8m less 18.1m treasury shares held by Whitbread PLC and 0.8m held by the ESOT.

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

	Year to 28 February 2008			Restated Year to 1 March 2007		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Profit for the year attributable to parent shareholders	**84.1**	**461.5**	**545.6**	205.5	76.3	281.8
Exceptional items – gross	75.7	(440.8)	(365.1)	(171.5)	(41.6)	(213.1)
Exceptional items – taxation	(15.9)	(1.1)	(17.0)	77.0	5.7	82.7
Profit for the year before exceptional items attributable to parent shareholders	**143.9**	**19.6**	**163.5**	111.0	40.4	151.4

13 Dividends paid and proposed

	2007/8		2006/7	
	pence per share	£m	pence per share	£m
Declared and paid in the year:				
Equity dividends on ordinary shares:				
Final dividend relating to the prior year	**22.15**	**43.5**	19.95	51.3
Interim dividend for the current year	**9.10**	**17.2**	8.10	17.8
		60.7		69.1
Dividends on other shares:				
B share dividend	**–**	**–**	155.00	264.4
C share dividend	**–**	**–**	159.00	195.5
		–		459.9
Total dividends paid		**60.7**		529.0
Proposed for approval at Annual General Meeting:				
Equity dividends on ordinary shares:				
Final dividend for the current year	**26.90**	**47.0**	22.15	43.8

Notes to the consolidated financial statements

At 28 February 2008

14 Intangible assets

	Goodwill £m	IT software £m	Other £m	Total £m
Cost				
At 2 March 2006	82.8	36.6	1.2	120.6
Additions	–	1.8	0.3	2.1
Disposals	–	(0.1)	–	(0.1)
At 1 March 2007	82.8	38.3	1.5	122.6
Additions	–	0.5	0.8	1.3
Businesses acquired	50.1	–	–	50.1
Businesses disposed of	–	(2.3)	–	(2.3)
At 28 February 2008	**132.9**	**36.5**	**2.3**	**171.7**
Amortisation and impairment				
At 2 March 2006	(22.3)	(19.0)	(0.3)	(41.6)
Amortisation during the year[1]	–	(2.5)	–	(2.5)
At 1 March 2007	(22.3)	(21.5)	(0.3)	(44.1)
Amortisation during the year[1]	–	(2.5)	(0.2)	(2.7)
Businesses disposed of	–	0.3	–	0.3
At 28 February 2008	**(22.3)**	**(23.7)**	**(0.5)**	**(46.5)**
Net book value at 28 February 2008	**110.6**	**12.8**	**1.8**	**125.2**
Net book value at 1 March 2007	60.5	16.8	1.2	78.5

[1] *Amortisation is reported within administrative expenses in the income statement.*

The carrying amount of goodwill at 1 March 2007 relates to Premier Inn. Additions during the year comprise £49.6m for the acquisition on 26 September 2007 of six hotels under the Tulip Inn and Golden Tulip brands and £0.5m for the acquisition of Belgrave Hotel Limited on 14 February 2008 (note 10).

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

Other intangibles

Other intangibles comprise Costa overseas trading licences and the brand name and franchise fee agreements acquired with the Premier Lodge business. The trading licences, which have a carrying value of £0.3m (2007: £0.3m), are deemed to have an infinite life as there is no time limit associated with them. The brand name and franchise fee agreements are being amortised over their estimated useful economic lives of periods up to 10 years.

Capital expenditure commitments

There are no capital expenditure commitments in relation to intangible assets at the year end (2007: £0.5m).

15 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 2 March 2006	2,214.2	943.1	3,157.3
Foreign currency adjustment	(1.1)	(0.6)	(1.7)
Additions	140.6	111.5	252.1
Businesses acquired	18.2	3.1	21.3
Interest capitalised	1.6	–	1.6
Assets written off	(0.3)	(1.5)	(1.8)
Movements to held for sale in the year	(208.6)	(277.4)	(486.0)
At 1 March 2007	2,164.6	778.2	2,942.8
Additions	136.5	147.6	284.1
Businesses acquired	7.9	0.8	8.7
Interest capitalised	1.5	–	1.5
Reclassified	(1.1)	1.1	–
Assets written off	–	(2.3)	(2.3)
Disposals	(489.2)	(249.1)	(738.3)
At 28 February 2008	**1,820.2**	**676.3**	**2,496.5**
Depreciation and impairment			
At 2 March 2006	(119.1)	(361.1)	(480.2)
Foreign currency adjustment	0.1	0.2	0.3
Depreciation charge for the year	(20.6)	(79.7)	(100.3)
Impairment (note 16)	(7.6)	(5.0)	(12.6)
Movements to held for sale in the year	(12.4)	150.0	137.6
At 1 March 2007	(159.6)	(295.6)	(455.2)
Depreciation charge for the year	(16.9)	(69.4)	(86.3)
Depreciation written off	–	1.4	1.4
Disposals	50.7	120.3	171.0
At 28 February 2008	**(125.8)**	**(243.3)**	**(369.1)**
Net book value at 28 February 2008	**1,694.4**	**433.0**	**2,127.4**
Net book value at 1 March 2007	2,005.0	482.6	2,487.6

Capital expenditure commitments	**2008 £m**	2007 £m
Capital expenditure commitments for property, plant and equipment for which no provision has been made	**42.3**	43.1

Capitalised interest

Interest capitalised during the year amounted to £1.5m, using an average rate of 6.1% (2006/7: £1.6m, using an average rate of 5.5%). Capitalised interest includes £0.2m (2006/7: £0.3m) from discontinued operations.

Notes to the consolidated financial statements

At 28 February 2008

16 Impairment

Impairment losses included in the income statement

There was no impairment loss during the year. 2006/7 impairment losses of £12.6m, recognised in the income statement as exceptional distribution costs, are analysed below:

	2007/8 Property, plant and equipment £m	Restated 2006/7 Property, plant and equipment £m
Pub Restaurants	–	1.8
Costa	–	1.2
Unallocated	–	1.4
Discontinued	–	8.2
Total	–	12.6

Property, plant and equipment

The Group considers each trading outlet to be a cash generating unit (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% (2006/7: 9%). The future cash flows are based on assumptions from the business plans and cover a five year period. Cash flows beyond this period are extrapolated using a 2.7% growth rate (2006/7: 2.5%).

Goodwill

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

The recoverable amount is the higher of fair value less costs to sell and value in use. In the absence of a recent market transaction the recoverable amount is determined from value in use calculations. This is calculated using the five year business plans approved by senior management. The key assumptions in these calculations relate to revenue and the increase in rooms. The calculation is most sensitive to revenue assumptions, however senior management believe that the assumptions used are reasonable. Cash flows beyond this period are extrapolated using a 2.7% growth rate (2006/7: 2.5%). The pre-tax discount rate applied to cash flow projections is 9% (2006/7: 9%).

The resultant impairment review required no impairment of the Premier Inn goodwill carrying value of £60.5m. A review of the goodwill created by the Tulip and Belgrave acquisitions concluded that there is insufficient post-acquisition trading history to suggest any impairment. Goodwill acquired will be assessed for impairment as part of the Premier Inn goodwill impairment review in future years.

17 Investment in joint ventures

During the year, the Group has established start-up operations in India and Russia, operated via joint venture arrangements.

Principal joint ventures	Investment held by	Principal activity	Country of incorporation	% equity interest 2008	% equity interest 2007
Premier Inn Hotels LLC	PTI Middle East Limited	Hotels	United Arab Emirates	**49.0**	49.0
True Value Hotels India Private Limited	Premier Travel Inn India Limited	Hotels	India	**49.9**	–
Rosworth Investments Limited	Costa International Limited	Coffee shops	Cyprus	**50.0**	–

17 Investment in joint ventures (continued)

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

Share of joint ventures' balance sheets	2008 £m	2007 £m
Current assets	**0.8**	1.2
Non-current assets	**5.2**	–
Share of gross assets	**6.0**	1.2
Current liabilities	**(0.4)**	(0.1)
Non-current liabilities	**(2.1)**	–
Share of gross liabilities	**(2.5)**	(0.1)
Share of net assets	**3.5**	1.1

Share of joint ventures' revenue and expenses	2007/8 £m	2006/7 £m
Revenue	**–**	0.6
Cost of sales	**–**	(0.2)
Administrative expenses	**(0.5)**	(0.3)
Finance costs	**–**	(0.1)
Loss before tax	**(0.5)**	–
Net loss	**(0.5)**	–

At 28 February 2008 the Group's share of the capital commitments of its joint ventures amounted to £6.3m (2007: £0.1m).

18 Investment in associate

Principal associate	Investment held by	Principal activity	Country of incorporation	% equity interest 2008	% equity interest 2007
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	2008 £m	2007 £m
Current assets	**0.3**	0.4
Non-current assets	**5.1**	5.1
Share of gross assets	**5.4**	5.5
Current liabilities	**(0.7)**	(0.7)
Non-current liabilities	**(3.9)**	(3.9)
Share of gross liabilities	**(4.6)**	(4.6)
Share of net assets	**0.8**	0.9

Share of associate's revenue and profit	2008 £m	2007 £m
Revenue	**2.6**	2.4
Profit	**0.6**	0.6

Notes to the consolidated financial statements

At 28 February 2008

19 Other financial assets

	2008 £m	2007 £m
Opening cost or valuation	**1.1**	5.4
Additions	**–**	1.0
Disposals	**(0.2)**	–
Provision for loan write down (note 6)	**–**	(5.3)
Closing cost or valuation	**0.9**	1.1
Non-current	**0.9**	1.1
	0.9	1.1

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

In 2006/7 a provision was created, as a consequence of Swallow Hotels Limited going into administration, in respect of the deferred consideration of £5.3m arising on the disposal of Swallow branded hotels during 2003/4.

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

20 Inventories

	2008 £m	2007 £m
Raw materials and consumables (at cost)	**1.0**	1.0
Finished goods (at cost)	**12.2**	11.8
Total inventories at lower of cost and net realisable value	**13.2**	12.8

21 Trade and other receivables

	2008 £m	2007 £m
Trade receivables	**31.9**	30.1
Prepayments	**25.8**	19.3
Other receivables	**5.2**	18.1
	62.9	67.5

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

The provision for impairment of receivables at 28 February 2008 was £3.2m (2007: £1.4m).

The ageing analysis of trade receivables is as follows:

	2008 £m	2007 £m
Neither past due nor impaired	**26.9**	25.7
Less than 30 days	**2.3**	1.7
Between 30 and 60 days	**0.9**	1.0
Greater than 60 days	**1.8**	1.7
	31.9	30.1

22 Cash and cash equivalents

	2008 £m	2007 £m
Cash at bank and in hand	**106.6**	70.2
Short-term deposits	**0.5**	0.3
	107.1	70.5

Cash at bank earns interest at floating rates based on daily bank deposit rates. 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 £107.1m (2007: £70.5m).

22 Cash and cash equivalents (continued)

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

	2008 £m	2007 £m
Cash at bank and in hand	**106.6**	70.2
Short-term deposits	**0.5**	0.3
Bank overdrafts (note 23)	**(86.8)**	(34.4)
	20.3	36.1

23 Financial liabilities

	Effective interest rate [1] %	Maturity	Current 2008 £m	Current 2007 £m	Non-current 2008 £m	Non-current 2007 £m
Bank overdrafts	Variable	On demand	**86.8**	34.4	**–**	–
Short-term borrowings	Variable	On demand	**9.2**	51.9	**–**	–
			96.0	86.3	**–**	–
Secured						
Redeemable debenture stock (nominal value £200.5m)	10.94	2011	**–**	–	**–**	240.3
Redeemable debenture stock (nominal value £100m)	8.29	2021	**–**	–	**–**	127.2
Other loans	Variable	2005 to 2012	**1.0**	–	**0.6**	1.2
Unsecured						
Loan notes	5.0	2005 to 2012	**–**	–	**–**	2.0
Loan notes 2009	Variable	2009	**–**	–	**1.0**	–
Revolving credit facility (£280m)	Variable	2008	**280.0**	–	**–**	277.1
Revolving credit facility (£700m)	Variable	2012	**–**	–	**154.3**	235.0
Total			**377.0**	86.3	**155.9**	882.8

[1] *Variable interest rates on overdrafts and floating rate loans are all linked to LIBOR.*

Secured loans are secured by fixed and floating charges on certain Group property, plant and equipment.

The Group's £280m revolving credit facility expired on 8 March 2008 and was fully utilised at 28 February 2008. Upon expiry of this facility, the Group entered into a new five year multi-currency revolving credit facility of £455m, which will expire in March 2013. The variable interest rates charged on this facility are linked to LIBOR.

Redeemable debenture stock (nominal value £200.5m and £100m)

The redeemable debenture stock was redeemed during the year.

Revolving credit facility (£700m)

The revolving credit facility was entered into on 9 December 2005 and runs until 8 December 2010. Two 1 year extensions have been agreed with Whitbread PLC's banking group such that £475m is available until December 2011 and £400m is available until December 2012. Loans have variable interest rates linked to LIBOR. The facility is multi-currency and hence can include Euro denominated borrowings.

Revolving credit facility (£280m)

The revolving credit facility ran until 8 March 2008. Loans had variable interest rates linked to LIBOR. The facility had the ability to be drawn down in either Euros or Sterling.

Short-term borrowings

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

Notes to the consolidated financial statements

At 28 February 2008

23 Financial liabilities (continued)

The maturity of the borrowings is as follows:

Year ended 28 February 2008	Within 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Fixed rate	**1.0**	**–**	**1.6**	**–**	**2.6**
Floating to fixed interest rate swaps	**90.0**	**–**	**200.0**	**200.0**	**490.0**
	91.0	**–**	**201.6**	**200.0**	**492.6**
Floating rate	**376.0**	**–**	**154.3**	**–**	**530.3**
Floating to fixed interest rate swaps	**(90.0)**	**–**	**(200.0)**	**(200.0)**	**(490.0)**
	286.0	**–**	**(45.7)**	**(200.0)**	**40.3**
Total	**377.0**	**–**	**155.9**	**–**	**532.9**

Year ended 1 March 2007	Within 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Fixed rate	–	1.2	240.3	127.2	368.7
Floating to fixed interest rate swaps	–	90.0	–	400.0	490.0
Fixed to floating interest rate swaps	–	–	(192.4)	(100.0)	(292.4)
	–	91.2	47.9	427.2	566.3
Floating rate	86.3	277.1	–	237.0	600.4
Floating to fixed interest rate swaps	–	(90.0)	–	(400.0)	(490.0)
Fixed to floating interest rate swaps	–	–	192.4	100.0	292.4
	86.3	187.1	192.4	(63.0)	402.8
Total	86.3	278.3	240.3	364.2	969.1

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

The swaps with maturities beyond the life of the current revolving credit facilities (2012) are in place to hedge against the core level of debt the Group will hold.

At 1 March 2007, the Group's capital structure included redeemable debenture stock with a nominal value of £300.5m. The Group had corresponding floating to fixed interest rate swaps of £292.4m. On 6 September 2007 the debentures were repaid and the corresponding interest rate swaps were cancelled.

The carrying amount of the Group's borrowings is denominated in the following currencies:

	2008 £m	2007 £m
Sterling	**532.2**	905.9
Euro	**–**	63.2
Renminbi	**0.7**	–
	532.9	969.1

At 28 February 2008, the Group had available £545.7m (2007: £467.9m) of undrawn committed borrowing facilities in respect of revolving credit facilities on which all conditions precedent had been met.

24 Movements in cash and net debt

	1 March 2007 £m	Loan disposed of £m	Cash flow £m	Amortisation of premiums and discounts £m	Fair value adjustments to loan capital £m	**28 February 2008 £m**
Cash at bank and in hand	70.5					**107.1**
Overdrafts and short-term borrowings	(86.3)					**(96.0)**
	(15.8)	–	26.9	–	–	**11.1**
Less short-term bank borrowings	51.9	–	(42.7)	–	–	**9.2**
Cash and cash equivalents	36.1	–	(15.8)	–	–	**20.3**
Short-term bank borrowings	(51.9)	–	42.7	–	–	**(9.2)**
Loan capital under one year	–					**(281.0)**
Loan capital over one year	(882.8)					**(155.9)**
Total loan capital	(882.8)	1.5	376.8	4.8	62.8	**(436.9)**
Net debt	(898.6)	1.5	403.7	4.8	62.8	**(425.8)**

25 Provisions

	Onerous contracts £m	Restructuring £m	Other £m	Total £m
At 1 March 2007	8.3	0.8	12.3	21.4
Arising during the year	24.4	19.4	–	43.8
Utilised	(5.5)	(0.6)	–	(6.1)
Released	(0.4)	(0.2)	(0.2)	(0.8)
At 28 February 2008	**26.8**	**19.4**	**12.1**	**58.3**
Analysed as:				
Current	11.0	19.4	0.5	30.9
Non-current	15.8	–	11.6	27.4
	26.8	**19.4**	**12.1**	**58.3**

Onerous contracts
Onerous contract provisions relate primarily to property reversions and are expected to be used over periods of up to 30 years.

Restructuring
Restructuring provisions created during the year relate to the overhead review carried out after the disposal of David Lloyd Leisure Limited and TGI Friday's, and to the outsourcing of the Group's logistics operations.

Other
Other provisions relate to warranties given on the disposal of businesses. These are expected to be used over periods of up to 25 years.

26 Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise bank loans, debentures, 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 each of these risks and they are summarised below:

Interest rate risk
The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term sterling debt obligations.

Interest rate swaps are used to achieve the desired mix of fixed and floating rate debt. The Group's policy is to fix between 35% and 65% of projected net interest cost over the next 15 years, which is beyond the life of the Group's existing revolving credit facilities. This policy reduces the Group's exposure to the consequences of interest rate fluctuations. At the year end, £492.6m (92%) of Group debt was fixed for an average of 5.0 years (2007: £566.3m, 58%, for 6.4 years), using floating rate borrowings and interest rate swaps. The average rate of interest on this fixed rate debt was 5.7% (2006/7: 5.8%).

During 2007/8, the repayment of borrowings using the cash generated by the disposal of David Lloyd Leisure Limited has resulted in a high level of fixed rate debt. Based on the 2008/9 budget and the 2009/10 strategic plan, both of which have been approved by the

Notes to the consolidated financial statements

At 28 February 2008

26 Financial risk management objectives and policies (continued)

Board, the percentage of fixed rate debt will return to the parameters set out in the Group's policy in 2009/10. Due to the fixing of net debt, the Group would not benefit if interest rates were to fall below the Group's fixed rate.

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 2008 and 1 March 2007 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 1% change in interest rates would affect the Group's profit before tax by approximately £0.3m (2007: £4.0m).

Liquidity risk

The Group mitigates liquidity risk by managing cash generated by its operations combined with bank borrowings and long-term debt. In its funding strategy the Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of overdrafts, bank loans and debentures. 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 2008 and 1 March 2007 based on contractual undiscounted payments, including interest:

28 February 2008	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest-bearing loans and borrowings	**96.0**	**282.1**	**5.4**	**199.4**	**–**	**582.9**
Trade payables	**–**	**98.8**	**–**	**4.4**	**–**	**103.2**
	96.0	**380.9**	**5.4**	**203.8**	**–**	**686.1**

1 March 2007	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest-bearing loans and borrowings	86.3	–	–	491.4	343.1	920.8
Convertible preference shares	–	–	0.1	–	–	0.1
Trade payables	–	110.3	–	–	–	110.3
	86.3	110.3	0.1	491.4	343.1	1,031.2

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 21.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial investments and certain derivative instruments, the Group's exposure arises from default of the counterparty, with a maximum exposure equal to the carrying value of these instruments.

Foreign currency risk

The disposal of David Lloyd Leisure Limited has significantly reduced the value of the Group's overseas investments, with the result that foreign exchange exposure is currently not significant. Sensitivity analysis has therefore not been carried out.

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

Capital management

The Group aims to maximise shareholder value by maintaining an appropriate debt/equity capital structure. It uses a number of mechanisms to manage debt/equity levels, as appropriate, in the light of economic and trading conditions, and the future capital investment requirements of the business. Over the last two years these mechanisms have included a combination of special dividends and share buy back to return funds to shareholders.

27 Financial instruments

Fair values

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

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

	Carrying values		Fair values	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Financial assets				
Cash and cash equivalents	**107.1**	70.5	**107.1**	70.5
Interest rate swaps – non-current	**–**	56.8	**–**	56.8
Interest rate swaps – current	**–**	8.3	**–**	8.3
Other financial assets	**0.9**	1.1	**0.9**	1.1
Financial liabilities				
Bank overdrafts and short-term borrowings	**96.0**	86.3	**96.0**	86.3
Interest-bearing loans and borrowings	**436.9**	882.8	**436.9**	885.5
Interest rate swaps – non-current	**7.6**	5.9	**7.6**	5.9
Interest rate swaps – current	**1.8**	–	**1.8**	–
Preference shares	**–**	3.2	**–**	3.2

28 Derivative financial instruments

Hedges

Cash flow hedges

At 28 February 2008, the Group had interest rate swaps in place to swap a notional amount of £490m (2007: £490m) whereby it receives a variable interest rate based on LIBOR on the notional amount and pays fixed rates of between 5.145% and 7.375% (2007: 5.145% and 7.375%). The swaps are being used to hedge the exposure to changes in future cash flows from variable rate debt.

Cash flow hedges are expected to impact on the income statement in line with the liquidity risk table shown in note 26.

The swaps with maturities beyond the life of the current revolving credit facilities (2012) are in place to hedge against the core level of debt the Group will hold.

The cash flow hedges were assessed to be highly effective at 28 February 2008 and a net unrealised loss of £4.5m was included in equity in respect of these contracts.

Fair value hedges

The Group has repaid its debentures and has consequently cancelled the derivatives, which were previously used to hedge the related interest rate risk.

Hedge of net investment in foreign entities

Following the disposal of David Lloyd Leisure Limited, including its European operations, the Group has repaid its foreign currency debt. At 1 March 2007, loans included a borrowing of £63.2m (€94m) which was designated as a hedge of the net investments in the European subsidiaries and was being used to reduce the exposure to foreign exchange risk. Gains or losses on the retranslation of this borrowing were transferred to equity to offset any gains or losses on translation on the net investment in subsidiaries when these hedges were effective.

Following the sale, the cumulative foreign exchange gains or losses previously taken to equity have been recycled through the income statement.

29 Trade and other payables

	2008 £m	2007 £m
Trade payables	**103.2**	110.3
Other taxes and social security	**32.8**	42.9
Accruals and deferred income	**64.8**	84.4
Other payables	**44.9**	49.5
	245.7	287.1
Analysed as:		
Current	**241.3**	287.1
Non-current	**4.4**	–
	245.7	287.1

Notes to the consolidated financial statements

At 28 February 2008

30 Share capital

Ordinary share capital

Authorised	2008 million	2007 million
Ordinary shares of 76.80p each (2007: 76.80p each)	**410.2**	410.2

Allotted, called up and fully paid ordinary shares of 76.80p each (2007: 76.80p each)	million	£m
At 2 March 2006	259.0	151.1
Issued	1.2	0.8
Share consolidation – 6 July 2006	(38.9)	–
Share consolidation – 18 January 2007	(23.5)	–
At 1 March 2007	197.8	151.9
Issued	1.0	0.7
Cancelled	(5.0)	(3.8)
At 28 February 2008	**193.8**	**148.8**

At the 2007 Annual General Meeting, the Company was authorised to purchase up to 19.7m of its own shares on the open market. This authorisation was extended at a General Meeting on 27 November 2007 by a further 17.8m shares. In total, 22.3m ordinary shares were acquired during the year at a cost of £340.3m. Five million of these shares have now been cancelled, with the remainder being held in the treasury share reserve (note 32).

During the year to 28 February 2008 options over 1.0m ordinary shares, fully paid, were exercised by employees under the terms of various share option schemes (2006/7: 1.2m).

The total number of shares in issue at the year end, used in the calculation of the basic weighted average number of ordinary shares, was 193.8m less 18.1m treasury shares held by Whitbread PLC and 0.8m held by the ESOT.

On 6 July 2006 a share consolidation took place which replaced every 20 existing shares with 17 new ordinary shares. A further share consolidation took place on 18 January 2007 which replaced every 47 existing shares with 42 new ordinary shares. The combined effect of this changed the par value of the shares from 58.33p to 76.80p.

Preference share capital

	B Shares		C Shares	
Authorised	2008 million	2007 million	2008 million	2007 million
Shares of 1p each	**265.0**	265.0	**224.0**	224.0
Allotted, called up and fully paid shares of 1p each	million	£m	million	£m
At 2 March 2006	–	–	–	–
Issued during the year	258.2	2.6	220.1	2.2
Converted to deferred shares	(170.6)	(1.7)	(123.0)	(1.2)
Repurchased and cancelled	(81.2)	(0.8)	(92.5)	(1.0)
At 1 March 2007	6.4	0.1	4.6	–
Repurchased and cancelled	(4.4)	(0.1)	–	–
At 28 February 2008	**2.0**	**–**	**4.6**	**–**

Deferred shares

	B Shares		C Shares	
Authorised	2008 million	2007 million	2008 million	2007 million
Deferred shares*	**170.6**	170.6	**123.0**	123.0
Allotted, called up and fully paid shares of 1p each	million	£m	million	£m
At 2 March 2006	–	–	–	–
Issued during the year ended 1 March 2007	170.6	–	123.0	–
Cancelled during the year ended 1 March 2007	(170.6)	–	(123.0)	–
At 1 March 2007 and 28 February 2008	**–**	**–**	**–**	**–**

** Under the terms of the share issues, deferred shares have a total nominal value of 1 pence.*

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

On 6 July 2006 B shares were issued as a means of returning cash to shareholders, shareholders received a B share for each ordinary share held on the record date.

30 Share capital (continued)
Shareholders had three options for the issue of B shares as follows:

- to receive a single dividend of 155 pence per share upon which the B shares were converted to deferred B shares that had limited rights and no right to share in the profits of the Group;
- to sell the B shares to Deutsche Bank for 155 pence per share, which in turn were purchased by the Group and subsequently cancelled; or
- to retain the B shares and be entitled to receive a B share continuing dividend at the rate of 75% of six month LIBOR, payable annually in arrears 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.

On 18 January 2007 C shares were issued as a means of returning cash to shareholders and shareholders received a C share for each ordinary share held on the record date.

Shareholders had three options for the issue of C shares as follows:

- to receive a single dividend of 159 pence per share upon which the C shares were converted to deferred shares that have limited rights and no right to share in the profits of the Group;
- to sell the C shares to Deutsche Bank for 159 pence per share, which in turn were purchased by the Group and subsequently cancelled; or
- to retain the C shares and be entitled to receive a C share continuing dividend at the rate of 75% of six month LIBOR, payable annually in arrears on the value of 159 pence per share.

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

31 Reserves

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Currency translation £m	Other reserves £m	**Total £m**	Minority interest £m	**Total equity £m**
At 2 March 2006	151.1	36.1	–	3,231.8	1.7	(1,877.0)	**1,543.7**	2.8	**1,546.5**
Total recognised income and expense for the year	–	–	–	307.9	(0.9)	(1.1)	**305.9**	(0.3)	**305.6**
Ordinary shares issued	0.8	6.8	–	–	–	–	**7.6**	–	**7.6**
Bonus issue of preference shares	–	(4.8)	–	–	–	–	**(4.8)**	–	**(4.8)**
Preference shares cancelled	–	–	4.7	(275.7)	–	–	**(271.0)**	–	**(271.0)**
Reimbursement of ESOT shares	–	–	–	–	–	1.2	**1.2**	–	**1.2**
Loss on ESOT shares issued to participants	–	–	–	(1.3)	–	1.3	**–**	–	**–**
Accrued share-based payments	–	–	–	5.2	–	–	**5.2**	–	**5.2**
Additions	–	–	–	–	–	–	**–**	0.6	**0.6**
Disposals	–	–	–	–	–	–	**–**	(2.8)	**(2.8)**
Equity dividends	–	–	–	(529.0)	–	–	**(529.0)**	–	**(529.0)**
At 1 March 2007	151.9	38.1	4.7	2,738.9	0.8	(1,875.6)	**1,058.8**	0.3	**1,059.1**
Total recognised income and expense for the year	–	–	–	611.8	(0.8)	(4.5)	**606.5**	(0.8)	**605.7**
Ordinary shares issued	0.7	5.7	–	–	–	–	**6.4**	–	**6.4**
Ordinary shares cancelled	(3.8)	–	3.8	(79.9)	–	79.9	**–**	–	**–**
Purchase of own shares	–	–	–	–	–	(340.3)	**(340.3)**	–	**(340.3)**
Preference shares cancelled	–	–	–	(7.0)	–	–	**(7.0)**	–	**(7.0)**
Cost of ESOT shares purchased	–	–	–	–	–	(7.3)	**(7.3)**	–	**(7.3)**
Loss on ESOT shares issued to participants	–	–	–	(2.7)	–	2.7	**–**	–	**–**
Accrued share-based payments	–	–	–	5.5	–	–	**5.5**	–	**5.5**
Additions	–	–	–	–	–	–	**–**	0.5	**0.5**
Equity dividends	–	–	–	(60.7)	–	–	**(60.7)**	–	**(60.7)**
At 28 February 2008	**148.8**	**43.8**	**8.5**	**3,205.9**	**–**	**(2,145.1)**	**1,261.9**	**–**	**1,261.9**

Notes to the consolidated financial statements

At 28 February 2008

31 Reserves (continued)

Nature and purpose of reserves

Share capital

Share capital comprises the nominal value of the Company's ordinary shares of 76.80p each.

Share premium

The share premium reserve is the premium paid on the Company's 76.80p ordinary shares.

Capital redemption reserve

A capital redemption reserve was created on the cancellation of the Group's B and C preference shares (note 30) 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.

32 Other reserves

	Treasury shares £m	Merger reserve £m	Hedging reserve £m	**Total other reserves £m**
At 2 March 2006	(18.5)	(1,855.0)	(3.5)	**(1,877.0)**
Total recognised income and expense for the year	–	–	(1.1)	**(1.1)**
Reimbursement of ESOT shares	1.2	–	–	**1.2**
Loss on ESOT shares issued to participants	1.3	–	–	**1.3**
At 1 March 2007	(16.0)	(1,855.0)	(4.6)	**(1,875.6)**
Total recognised income and expense for the year	–	–	(4.5)	**(4.5)**
Purchase of own shares	(340.3)	–	–	**(340.3)**
Ordinary shares cancelled	79.9	–	–	**79.9**
Cost of ESOT shares purchased	(7.3)	–	–	**(7.3)**
Loss on ESOT shares issued to participants	2.7	–	–	**2.7**
At 28 February 2008	**(281.0)**	**(1,855.0)**	**(9.1)**	**(2,145.1)**

Nature and purpose of other reserves

Merger reserve

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

Hedging reserve

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

Treasury shares

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.

During the year, Whitbread PLC purchased 22.3m ordinary shares on the open market at a cost of £340.3m. Five million of these shares, costing £79.9m, have now been cancelled.

Treasury shares held by Whitbread PLC	million	£m
At 1 March 2007	0.8	9.5
Acquired during the year	22.3	340.3
Cancelled during the year	(5.0)	(79.9)
At 28 February 2008	**18.1**	**269.9**

The treasury shares reduce the amount of reserves available for distribution to shareholders by £281.0m (2007: £16.0m).

33 Commitments and contingencies

Operating lease commitments

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

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

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

	2007/8 £m	2006/7 £m
Due within one year	**56.2**	52.9
Due after one year but not more than five years	**196.4**	176.2
Due after five years	**718.0**	768.0
	970.6	997.1

Group companies have sub-let space in certain properties. The future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 28 February 2008 are £58.1m (2007: £28.5m).

Contingent liabilities

There were no material contingent liabilities at 28 February 2008 or 1 March 2007.

34 Share-based payment plans

Long-Term Incentive Plan (LTIP)

Awards prior to 2007 were made under the Whitbread Leadership Group Incentive Scheme implemented during 2004/5. From 2007 the LTIP no longer forms part of the Leadership Group Incentive Scheme.

The LTIP awards shares to directors and senior executives of the Group. Vesting of shares under the scheme will depend on continued employment and meeting total shareholder return (TSR) and earnings per share (EPS) performance targets over a three year period. Details of the performance targets for the LTIP awards can be seen in the Remuneration report on pages 11 to 19.

The awards are settled in equity once exercised.

Movements in the number of share awards are as follows:

	2008 Awards	2007 Awards
Outstanding at the beginning of the year	**241,897**	180,079
Granted during the year	**150,322**	110,325
Exercised during the year	**(66,008)**	–
Expired during the year	**(59,798)**	(48,507)
Outstanding at the end of the year	**266,413**	241,897
Exercisable at the end of the year	**–**	–

Deferred equity awards

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

The awards are not subject to performance conditions and will vest in full on the release date subject to continued employment at that date. If employment ceases prior to the release date by reason of redundancy, retirement, death or disability, the awards will be released in full. If employment ceases for any other reason, 50% of the shares will be awarded and the remainder will lapse.

Movements in the number of share awards are as follows:

	2008 Awards	2007 Awards
Outstanding at the beginning of the year	**433,019**	448,174
Granted during the year	**166,803**	67,531
Exercised during the year	**(303,829)**	(68,469)
Expired during the year	**(68,159)**	(14,217)
Outstanding at the end of the year	**227,834**	433,019
Exercisable at the end of the year	**–**	–

Notes to the consolidated financial statements

At 28 February 2008

34 Share-based payment plans (continued)

Executive Share Option Scheme (ESOS)

Annual grants of share options have been discontinued, however options may be granted in exceptional circumstances, for example, on a senior recruitment or following an acquisition of a business. No changes will be made to options already granted.

An earnings per share based performance condition will apply to any such options, and to the extent that the performance is not satisfied after three years, the option shall lapse as there is no opportunity to retest performance. This was the case for the options granted in 2004 and 2005, for which the performance target requires earnings per share growth of RPI plus 12% over the three year performance period. For options granted between June 2000 and June 2003 the performance conditions required the Company's adjusted earnings per share to exceed RPI plus 4% per annum measured over any three consecutive years out of the 10 year performance period starting from June 2000 and ending June 2013 depending on when the options were granted.

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

	2008		2007	
	Options	**WAEP (£ per share)**	Options	WAEP (£ per share)
Outstanding at the beginning of the year	**1,352,352**	**7.22**	2,211,313	7.53
Exercised during the year	**(637,274)**	**7.36**	(795,997)	7.15
Expired during the year	**(83,562)**	**7.35**	(62,964)	8.01
Outstanding at the end of the year	**631,516**	**7.11**	1,352,352	7.22
Exercisable at the end of the year	**581,516**	**7.00**	796,407	7.01

The weighted average contractual life for the share options outstanding as at 28 February 2008 is between four and five years and they are exercisable at prices between £5.39 and £11.01.

Employee share scheme

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

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

	2008		2007	
	Options	**WAEP (£ per share)**	Options	WAEP (£ per share)
Outstanding at the beginning of the year	**1,599,450**	**7.92**	2,419,266	6.28
Granted during the year	**327,527**	**14.17**	447,856	11.21
Exercised during the year	**(319,534)**	**6.04**	(542,462)	5.42
Expired during the year	**(361,106)**	**9.06**	(725,210)	6.30
Outstanding at the end of the year	**1,246,337**	**9.71**	1,599,450	7.92
Exercisable at the end of the year	**160,304**	**6.36**	42,656	5.41

The weighted average contractual life for the share options outstanding as at 28 February 2008 is between two and three years and they are exercisable at prices between £4.41 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.

Total charged to the income statement

	Year to 28 February 2008 £m	Year to 1 March 2007 £m
Long-Term Incentive Plan and uplift awards	**0.7**	0.5
Deferred equity	**1.4**	1.3
Executive Share Option Scheme (ESOS)	**0.1**	0.8
Employee share scheme	**2.5**	2.6
	4.7	5.2

34 Share-based payment plans (continued)
The following table lists the inputs to the model used for the year ended 28 February 2008:

	Grant date	Number of shares granted	Fair value	Fair value £	Exercise price p	Price at grant date p	Expected term (years)	Expected dividend yield	Expected volatility	Risk-free rate	Vesting conditions
LTIP awards	27.4.2007	75,161	57.0%	806,300	–	1,882.0	3	1.61%	20%	5.50%	Market[1]
	27.4.2007	75,161	95.3%	1,348,000	–	1,882.0	3	1.61%	n/a	n/a	Non-market[2]
Deferred equity awards	27.4.2007	166,803	95.3%	2,991,700	–	1,882.0	3	1.61%	n/a	n/a	None
SAYE – 3 years	29.11.2007	276,101	19.9%	805,800	1,417.0	1,463.0	3.25	2.14%	23%	4.45%	Non-market[3]
SAYE – 5 years	29.11.2007	51,426	24.5%	184,500	1,417.0	1,463.0	5.25	2.14%	22%	4.58%	Non-market[3]

[1] *Total shareholder return (TSR)*
[2] *Earnings per share*
[3] *Employment service*

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

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

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

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

At 28 February 2008 there were outstanding options for employees to purchase up to 2.4m (2007: 3.6m) ordinary shares of 76.80 pence each between 2008 and 2015 at prices ranging between £4.41 per share and £14.17 per share.

Employee Share Ownership Trust (ESOT)
The Company funds an ESOT to enable it to acquire and hold shares for the LTIP and executive share option schemes. The ESOT held 0.9m shares at 28 February 2008. All dividends on the shares in the ESOT are waived by the Trustee.

35 Retirement benefits
Defined contribution schemes
The Group operated a defined contribution pension scheme which closed to new members on 31 December 2001. Members of the scheme are contracted out of the State Second Pension. A replacement, contracted-in, defined contribution arrangement was established as a section of the Whitbread Group Pension Fund with effect from 1 April 2002. Contributions by both employees and Group companies are held in externally invested trustee-administered funds.

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 £2.0m (2006/7: £1.9m).

At the year end, 705 employees were active members of the scheme, which also had 6,690 deferred members.

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. 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 1,258 employees were active members of the scheme, which also had 27,961 deferred pensioners and 15,554 pensions in payment.

The 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 Hewitt, using the projected unit credit valuation basis. As the scheme is now closed to new members the current service cost, under the projected unit credit valuation basis, will increase as a percentage of salary as members of the scheme approach retirement, although the overall cost will decrease as the number of members decreases.

Notes to the consolidated financial statements

At 28 February 2008

35 Retirement benefits (continued)

Actuarial valuations of the schemes are carried out on a triennial basis, with the next valuation for Whitbread Group Pension Fund due in 2008. The pension cost for the year has been based on the last actuarial valuation, which was carried out as at 31 March 2005. The assumptions were derived from market yields. Separate assumptions were made for the discount rate used to value liabilities and the return expected on the assets. Scheme assets are stated at their market values at the respective balance sheet dates. In order to reflect changes to life expectancy since the last valuation, the results of the Fund's mortality experience at 31 March 2005 have this year been applied to the "00" series base table and future rates of improvement in life expectancy are assumed to be in line with medium cohort projections, with a minimum annual improvement of 1% per annum.

The Board announced in April 2003 that the Company had signed an agreement with Whitbread Pension Trustees Limited. This agreement was updated in October 2005. Under the agreement, the Company has given undertakings to the trustees similar to some of the covenants provided in respect of its banking agreements, up to a value of £300.0m. As a consequence of the agreement, during the year ended 28 February 2008, ordinary contributions of £5.5m for future service, plus £50.0m of special contributions, were paid by Whitbread Group PLC into the Fund. The Group expects to make special contributions of a further £90.0m over the next three years including £50.0m during the financial year 2008/9 and £20.0m during each of the financial years 2009/10 and 2010/11.

The principal assumptions used by the independent qualified actuaries in updating the most recent valuations of the UK schemes to 28 February 2008 for IAS 19 purposes were:

	At 28 February 2008 %	At 1 March 2007 %
Rate of increase in salaries	**5.0**	4.5
Pre April 2006 rate of increase in pensions in payment and deferred pensions	**3.4**	3.0
Post April 2006 rate of increase in pensions in payment and deferred pensions	**2.4**	2.3
Discount rate	**6.2**	5.2
Inflation assumption	**3.4**	3.0

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 18.9 years if they are male and for a further 21.3 years if they are female. For a member who retires in 2028 at age 65, the assumptions are that they will live on average for a further 20.7 years after retirement if they are male and for a further 23.1 years after retirement if they are female.

The main valuation assumptions were that the return on investments would be 3.5% per annum above inflation. The average expected remaining service life of current employees is seven years.

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

	2007/8 £m	2006/7 £m
Current service cost	**5.5**	7.5
Past service cost	**(10.0)**	(1.5)
Curtailments	**(0.5)**	(1.0)
Recognised in arriving at operating profit	**(5.0)**	5.0
Expected return on scheme assets	**(86.5)**	(73.0)
Interest cost on scheme liabilities	**79.5**	73.5
Other finance (revenue)/costs (note 8)	**(7.0)**	0.5

The amounts taken to the statement of recognised income and expense are as follows:

	2007/8 £m	2006/7 £m
Actual return on scheme assets	**20.0**	82.5
Less: expected return on scheme assets	**(86.5)**	(73.0)
Other actuarial gains and losses	**162.0**	28.5
	95.5	38.0

35 Retirement benefits (continued)

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

The amounts recognised in the balance sheet are as follows:

	2007/8 £m	2006/7 £m
Present value of funded defined benefit obligations	**(1,405.0)**	(1,562.0)
Fair value of scheme assets	**1,372.0**	1,366.0
Liability recognised in the balance sheet	**(33.0)**	(196.0)

The pension liability in the period has fallen from £196.0m to £33.0m. The main reasons for this reduction are actuarial gains of £95.5m reflected in the statement of recognised income and expense, a special cash contribution from the Group of £50.0m and an exceptional profit reflected in the income statement of £10.0m relating to new arrangements for commutation of pension rights on retirement into a cash lump sum.

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

	2007/8 £m	2006/7 £m
Opening defined benefit obligation	**1,562.0**	1,576.0
Current service cost	**5.5**	7.5
Net interest cost	**79.5**	73.5
Actuarial gains on scheme liabilities	**(162.0)**	(28.5)
Contributions from scheme members	**0.5**	1.0
Benefits paid	**(70.0)**	(65.0)
Curtailments	**(0.5)**	(1.0)
Past service cost	**(10.0)**	(1.5)
Closing defined benefit obligation	**1,405.0**	1,562.0

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

	2007/8 £m	2006/7 £m
Opening fair value of scheme assets	**1,366.0**	1,238.0
Expected return on scheme assets	**86.5**	73.0
Actuarial gains and (losses) on scheme assets	**(66.5)**	9.5
Contributions from scheme members	**0.5**	1.0
Contributions from employer	**55.5**	109.5
Benefits paid	**(70.0)**	(65.0)
Closing fair value of scheme assets	**1,372.0**	1,366.0

Contributions from employer in 2006/7 include £2.3m to fund a transfer of unapproved benefits to the Fund (an explanation is provided in directors' pension entitlements).

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

	Expected return		Fair value of assets	
	2008 %	2007 %	2008 £m	2007 £m
Equities	**8.3**	8.0	**747.0**	777.0
Government bonds	**4.6**	4.5	**315.0**	399.0
Corporate bonds	**5.3**	5.0	**75.0**	109.0
Property	**7.1**	7.0	**136.0**	47.0
Cash	**4.6**	5.5	**99.0**	34.0
			1,372.0	1,366.0

Notes to the consolidated financial statements

At 28 February 2008

35 Retirement benefits (continued)

History of experience gains and losses:

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligations	**(1,405.0)**	(1,562.0)	(1,576.0)	(1,357.0)	(1,318.0)
Fair value of scheme assets	**1,372.0**	1,366.0	1,238.0	1,011.0	952.0
Liability recognised in the balance sheet	**(33.0)**	(196.0)	(338.0)	(346.0)	(366.0)
Experience adjustments on scheme liabilities (£m)	**(7.5)**	(6.0)	(17.5)	(4.5)	(6.0)
Percentage of scheme liabilities (%)	**0.5%**	0.4%	1.1%	0.3%	0.5%
Experience adjustments on scheme assets (£m)	**(66.5)**	9.5	105.5	33.0	118.0
Percentage of scheme assets (%)	**(4.8)%**	0.7%	8.5%	3.3%	12.4%

The cumulative amount of actuarial gains and losses recognised since 4 March 2004 in the Group statement of recognised income and expense is £65.6m (2007: (£29.9m)).

36 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 **2008**	2007
Whitbread Group PLC	Pub Restaurants and Hotels	England	**100**	100
Premier Inn Hotels Limited	Hotels	England	**100**	100
Whitbread Restaurants Limited	Pub Restaurants	England	**100**	–
Premier Inn Limited	Hotels	England	**100**	–
Whitbread Hotel Company Limited	Hotels	England	**100**	100
Costa Limited	Roasters, wholesalers and retailers of coffee	England	**100**	100

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. 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.

There were no sales to related parties during the year (2006/7: £0.7m) and at 28 February 2008 there were no amounts owed by related parties (2007: £nil).

Compensation of key management personnel (including directors):

	2007/8 £m	2006/7 £m
Short-term employee benefits	**6.2**	6.4
Post employment benefits	**0.4**	(0.2)
Termination benefits	**0.8**	0.3
Share-based payments	**4.4**	1.5
	11.8	8.0

Associates

For details of the Group's investments in associates see note 18.

Joint ventures

For details of the Group's investments in joint ventures see note 17.

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 2008, the Group has not raised any provision for doubtful debts relating to amounts owed by related parties (2007: £nil). An assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Transactions with other related parties

Details of transactions with directors are detailed in the Remuneration report on pages 11 to 19.

37 Events after the balance sheet date

On 8 April 2008, the Group announced the acquisition of three hotels from the Real Hotel Company PLC for £18.5m.

The Group's £280m revolving credit facility expired on 8 March 2008 and was fully utilised at 28 February 2008. Upon expiry of this facility, the Group entered into a new five year multi-currency revolving credit facility of £455m, which will expire in March 2013. The variable interest rates charged on this facility are linked to LIBOR.

As a result of The Laurel Pub Company Limited going into administration on 27 March 2008, a provision of £20.9m has been charged to income to recognise the expected cost of lease reversions relating to properties which will revert to the Group.

A final dividend of 26.90p per share (2007: 22.15p) amounting to a dividend of £47.0m (2007: £43.8m) was declared by the directors at their meeting on 27 April 2008. These financial statements do not reflect this dividend payable.

Whitbread PLC
Company accounts 2007/8

Directors' responsibility for the Company financial statements/ audit report

Statement of directors' responsibilities

The following statement, which should be read in conjunction with the auditor's statement of their responsibilities below, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditor in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that, in preparing the financial statements on pages 64 to 67, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable Accounting Standards have been followed.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Whitbread PLC

We have audited the parent Company financial statements of Whitbread PLC for the year ended 28 February 2008 which comprise the Balance Sheet and the related notes 1 to 12. These parent Company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration report that is described as having been audited.

We have reported separately on the Group financial statements of Whitbread PLC for the year ended 28 February 2008.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration report and the parent Company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent Company financial statements and the part of the Directors' Remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent Company financial statements give a true and fair view and whether the parent Company financial statements and the part of the Directors' Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the parent Company's Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the Operating review that is cross-referred from the Directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent Company financial statements. The other information comprises only the Directors' report, the Chairman's statement, the Chief Executive's review, the Finance Director's review and the Corporate Governance report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent Company financial statements and the part of the Directors' Remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent Company financial statements and the part of the Directors' Remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent Company financial statements and the part of the Directors' Remuneration report to be audited.

Opinion

n our opinion:

- the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 28 February 2008;
- the parent Company financial statements and the part of the Directors' Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the parent Company financial statements.

Ernst & Young LLP
Registered Auditor
London

27 April 2008

Balance sheet

At 28 February 2008

	Notes	2008 £m	2007 £m
Fixed assets			
Investment in subsidiaries	5	**2,256.1**	2,256.1
Total non-current assets		**2,256.1**	2,256.1
Current assets			
Debtors: amounts falling due within one year	6	**32.3**	23.5
Current liabilities			
Creditors: amounts falling due within one year	7	**(963.1)**	(1,977.4)
Net current assets		**(930.8)**	(1,953.9)
Total assets less current liabilities		**1,325.3**	302.2
Provisions for liabilities and charges	8	**–**	(2.5)
Net assets		**1,325.3**	299.7
Capital and reserves			
Share capital	9	**148.8**	151.9
Share premium	10	**43.8**	38.1
Capital redemption reserve	10	**8.5**	4.7
Retained earnings	10	**1,394.1**	114.5
Other reserves	10	**(269.9)**	(9.5)
Shareholders' funds	10	**1,325.3**	299.7

Alan Parker
Chief Executive

Christopher Rogers
Finance Director

27 April 2008

Notes to the accounts

At 28 February 2008

1 Basis of accounting

The financial statements of Whitbread PLC for the year ended 28 February 2008 were authorised for issue by the Board of directors on 27 April 2008.

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.

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 230 of the Companies Act 1985. The profit earned for ordinary shareholders and included in the accounts of the parent Company amounted to £1,427.2m (2007: loss of £52.3m).

4 Dividends paid and proposed

	2007/8		2006/7	
	pence per share	£m	pence per share	£m
Final dividend relating to the prior year	22.15	43.5	19.95	51.3
Interim dividend for the current year	9.10	17.2	8.10	17.8
B share dividend	–	–	155.00	264.4
C share dividend	–	–	159.00	195.5
Total dividends paid		60.7		529.0
Proposed for approval at Annual General Meeting:				
Final dividend for the current year	26.90	47.0	22.15	43.8

The final dividend for the current year was proposed by the directors on 27 April 2008 and is not reflected in these accounts. This dividend will be paid in 2008/9 assuming that it is approved by shareholders at the Annual General Meeting.

5 Investment in subsidiary undertakings

Shares at cost	2008 £m	2007 £m
1 March 2007 and 28 February 2008	2,256.1	2,256.1
	2,256.1	2,256.1

Principal subsidiary undertakings	Principal activity	Country of incorporation or registration	Country of principal operations	% of equity and votes held
Whitbread Group PLC	Pub Restaurants and Hotels	England	England	100
Premier Inn Hotels Limited	Hotels	England	England	100
Whitbread Restaurants Limited	Pub Restaurants	England	England	100
Premier Inn Limited	Hotels	England	England	100
Whitbread Hotel Company Limited	Hotels	England	England	100
Costa Limited	Roasters, wholesalers and retailers of coffee	England	England	100

Shares in Whitbread Group PLC are held directly by Whitbread PLC. Shares in the other subsidiaries are held by Whitbread Group PLC. All principal subsidiary undertakings have the same year end as Whitbread PLC. 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.

Notes to the accounts

At 28 February 2008

6 Debtors

Amounts falling due within one year	2008 £m	2007 £m
Corporate tax recoverable	**32.3**	23.5
	32.3	23.5

7 Creditors

Amounts falling due within one year	2008 £m	2007 £m
Other creditors	**1.9**	0.2
Amounts due to subsidiary undertakings	**961.2**	1,977.1
Preference shares	**–**	0.1
	963.1	1,977.4

8 Provisions

	£m
At 1 March 2007	2.5
Released	(2.5)
At 28 February 2008	**–**

Provisions related to warranties given on the disposal of businesses.

9 Share capital

Authorised	2008 million	2007 million
Ordinary shares of 76.80p each (2007: 76.80p each)	**410.2**	410.2

Allotted, called up and fully paid ordinary shares of 76.80p each (2007: 76.80p each)	million	£m
At 2 March 2006	259.0	151.1
Issued	1.2	0.8
Share consolidation – 6 July 2006	(38.9)	–
Share consolidation – 18 January 2007	(23.5)	–
At 1 March 2007	197.8	151.9
Issued	1.0	0.7
Cancelled	(5.0)	(3.8)
At 28 February 2008	**193.8**	**148.8**

At the 2007 Annual General Meeting, the Company was authorised to purchase up to 19.7m of its own shares on the open market. This authorisation was extended at a General Meeting on 27 November 2007 by a further 17.8m shares. In total, 22.3m ordinary shares were acquired during the year at a cost of £340.3m. Five million of these shares have now been cancelled, with the remainder being held in the treasury share reserve (note 10).

During the year to 28 February 2008, options over 1.0m ordinary shares, fully paid, were exercised by employees under the terms of various share option schemes (2006/7: 1.2m).

On 6 July 2006 a share consolidation took place which replaced every 20 existing shares with 17 new ordinary shares. A further share consolidation took place on 18 January 2007 which replaced every 47 existing shares with 42 new ordinary shares. The combined effect of this changed the par value of the shares from 58.33p to 76.80p.

Preference shares*	B Shares		C Shares	
Authorised	2008 million	2007 million	2008 million	2007 million
Shares of 1p each	**265.0**	265.0	**224.0**	224.0
Allotted, called up and fully paid shares of 1p each	million	£m	million	£m
At 2 March 2006	–	–	–	–
Issued during the year	258.2	2.6	220.1	2.2
Converted to deferred shares	(170.6)	(1.7)	(123.0)	(1.2)
Bought back and cancelled	(81.2)	(0.8)	(92.5)	(1.0)
At 1 March 2007	6.4	0.1	4.6	–
Bought back and cancelled	(4.4)	(0.1)	–	–
At 28 February 2008	**2.0**	**–**	**4.6**	**–**

Notes to the accounts

At 28 February 2008

9 Share capital (continued)

Deferred shares*	B Shares		C Shares	
	2008	2007	**2008**	2007
Authorised	**million**	million	**million**	million
Deferred shares in issue	**170.6**	170.6	**123.0**	123.0
Allotted, called up and fully paid shares of 1p each	million	£m	million	£m
At 2 March 2006	–	–	–	–
Issued during the year	170.6	–	123.0	–
Cancelled	(170.6)	–	(123.0)	–
At 1 March 2007 and 28 February 2008	**–**	**–**	**–**	**–**

** Refer to note 30 of the Whitbread PLC consolidated accounts for further details of the preference and deferred share issues.*

At 28 February 2008 there were outstanding options for employees to purchase up to 2.4m (2007: 3.6m) ordinary shares of 76.80 pence each between 2008 and 2015 at prices ranging between £4.41 per share and £14.17 per share.

10 Shareholders' funds

	Share capital £m	Share premium £m	Capital redemption reserve £m	Treasury shares £m	Retained earnings £m	**Total £m**
At 2 March 2006	151.1	36.1	–	(9.5)	971.5	**1,149.2**
Ordinary shares issued	0.8	6.8	–	–	–	**7.6**
Bonus issue of preference shares	–	(4.8)	–	–	–	**(4.8)**
Preference shares cancelled	–	–	4.7	–	(275.7)	**(271.0)**
Loss for the financial year	–	–	–	–	(52.3)	**(52.3)**
Equity dividends	–	–	–	–	(529.0)	**(529.0)**
At 1 March 2007	151.9	38.1	4.7	(9.5)	114.5	**299.7**
Ordinary shares issued	0.7	5.7	–	–	–	**6.4**
Ordinary shares cancelled	(3.8)	–	3.8	79.9	(79.9)	**–**
Purchase of own shares	–	–	–	(340.3)	–	**(340.3)**
Preference shares cancelled	–	–	–	–	(7.0)	**(7.0)**
Profit for the financial year	–	–	–	–	1,427.2	**1,427.2**
Equity dividends	–	–	–	–	(60.7)	**(60.7)**
At 28 February 2008	**148.8**	**43.8**	**8.5**	**(269.9)**	**1,394.1**	**1,325.3**

11 Related parties

The Company has taken advantage of the exemption given in FRS 8 not to disclose transactions with other group companies.

12 Contingent liabilities

Whitbread PLC is a member of Whitbread Group PLC VAT group. All members are jointly and severally liable for the liability. At the balance sheet date the Group liability stood at £20.1m.

Analysis of shares at 28 February 2008

Band	Number of holders	% of holders	Number of shares	% of share capital
1 - 100	28,632	49.06	1,084,667	0.56
101 - 500	20,827	35.68	5,053,095	2.61
501 - 1,000	5,011	8.59	3,506,095	1.81
1,001 - 5,000	3,031	5.19	5,564,797	2.87
5,001 - 10,000	229	0.39	1,609,910	0.83
10,001 - 50,000	305	0.52	7,311,716	3.77
50,001 - 100,000	91	0.16	6,672,279	3.44
100,001 - 500,000	165	0.28	35,344,492	18.23
500,001 - 1,000,000	38	0.07	28,344,579	14.62
1,000,001 - 5,000,000	30	0.05	53,271,766	27.48
5,000,001 +	5	0.01	46,067,869	23.78
Total	**58,364**	**100.00**	**193,831,265**	**100.00**

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