Whitbread
Welcome with a smile

Whitbread PLC
Directors' Report and Accounts 2006/7

Contents

The full Whitbread Report and Accounts 2006/7 (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 0870 162 3190.

Directors' report

The directors present their report and accounts for the year ended 1 March 2007.

Principal activities and review of the business

A detailed review of the Company's activities, the development of its businesses, and an indication of likely future developments are given on pages 3 to 15 of the Annual Review.

Results and dividends	
Group profit before tax and exceptional items from Continuing operations	£213.0m
Group profit before tax and after exceptional items from Continuing operations	£375.2m
Interim dividend paid on 2 January 2007	8.10p per share
Recommended final dividend	22.15p per share
Total dividend for the year	30.25p per share

Subject to approval at the AGM, the final dividend will be payable on 6 July 2007 to shareholders on the register at the close of business on 4 May 2007.

Board of directors

The directors at the date of this report are listed on pages 22 and 23 of the Annual Review and all except Simon Melliss served throughout the year. Simon Melliss joined the Board as an independent non-executive director on 1 April 2007 and will take over as Chairman of the Audit Committee on 1 May 2007.

Simon Melliss will stand for election, and Anthony Habgood and Christopher Rogers 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 12. None of the non-executive directors has a service contract.

Share capital

At the start of the year, the authorised share capital was £315 million divided into 540 million ordinary shares of $58\frac{1}{3}$ pence each. At an Extraordinary General Meeting on 20 June 2006, shareholders approved a share consolidation and the creation of 265 million B non-cumulative preference shares of 1 penny each. As a result, with effect from 20 June 2006 the authorised share capital changed to £317.65 million divided into 459 million ordinary shares of $68\frac{32}{51}$ pence each and 265 million B non-cumulative preference shares of 1 penny each. At an Extraordinary General Meeting on 18 December 2006, shareholders approved a further share consolidation and the creation of 224 million C non-cumulative preference shares of 1 penny each. As a result, from 18 December 2006, the authorised share capital changed to £319.89 million divided into 410,170,050 ordinary shares of $76\frac{122}{153}$ pence each, 265 million B non-cumulative preference shares of 1 penny each and 224 million C non-cumulative preference shares of 1 penny each.

Details of the issued share capital can be found in note 29 to the accounts.

Supplier payment policy

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 1 March 2007, based on the trade creditors outstanding at that date and purchases made during the year.

Major interests

As at 20 April 2007 , the Company had been notified of the following major interests:

	No of shares	% of issued share capital
Crédit Agricole Group	15,688,112	7.96
AXA SA	13,385,788	6.79
Legal and General	12,031,879	6.10
Schroders Plc	10,531,421	5.35
UBS	8,721,474	3.97
Barclays	8,241,542	3.75

Charitable donations

No direct charitable donations have been made by the Company. The Whitbread Charitable Trust made donations totalling £150,972 during the year.

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.

Directors' indemnity

Qualifying third party indemnity provisions (as defined in Section 309B (1) of the Companies Act 1985) are in force for the benefit of the directors.

Purchase of own shares

The Company is authorised to purchase, in the market, the Company's own shares. Approval to renew this authority for a further year will be sought from shareholders at the 2007 AGM. The Company did not purchase any of its own ordinary shares during the year.

Auditor

Ernst & Young LLP has expressed its willingness to continue in office as auditor of the Company and a resolution proposing its 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, continues to be objective and independent of the Company. In coming to this conclusion the Audit Committee gave full consideration to the non-audit work carried out by Ernst & Young LLP.

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

Disclosure of information to auditors

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 in the ordinary shares in the Company are shown below:

	Held at 1/3/2007	Held at 2/3/2006*	Held at 2/3/2006
Anthony Habgood	**16,972**	16,881	22,227
Alan Parker	**45,361**	41,522	54,667
Angie Risley	**7,606**	7,423	9,773
Christopher Rogers	**9,319**	4,881	6,428
Philip Clarke	**3,797**	3,797	5,000
Margaret Ewing	**–**	–	–
Charles Gurassa	**1,821**	1,821	2,398
Rod Kent	**1,952**	1,952	2,571

The share interests shown above include the non-beneficial interests of Anthony Habgood in 697 ordinary shares. (799 ordinary shares as at 2 March 2006.)

** On 23 June 2006 there was a share consolidation under which shareholders received 17 new shares for every 20 old shares. On 5 January 2007 there was a further share consolidation under which shareholders received 42 new shares for 47 old shares. As a result the holdings of the directors have, where appropriate, been re-stated to show the effect of these consolidations on the position at the beginning of the year.*

Risks and uncertainties

Appended to this Directors' Report is the Board's analysis of what it believes to be the main risks and uncertainties facing the Company. Full details can be seen on pages 3 to 4.

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 19 June 2007 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE. The Notice of Meeting is enclosed with this report and is accompanied by a letter from the Chairman.

By order of the Board

Simon Barratt
Company Secretary

23 April 2007

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

Registered in England: No. 4120344

Appendix to 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 Company 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 Company's businesses carries out market research and analyses consumer trends in the UK, the USA and in Europe. Whitbread uses this research to anticipate future consumer trends and to position itself to benefit from those trends.

In addition, the Company places great importance on listening to the views of its customers. Premier Travel Inn, for example, obtains feedback from over 30,000 of its customers every month and 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 Company's WINcard (see page 6 of the Annual Review for further details). Whitbread believes that by listening to its customers it is significantly reducing the risks associated with changing consumer trends.

Consumer spending

As more than 95% of Whitbread's turnover comes from the UK, the general health of the UK economy and its influence on consumer spending is important to the Company's success. A significant downturn in consumer spending would be a risk to Whitbread's financial performance.

Whitbread has over 1,400 outlets, which operate in different sectors of the UK leisure industry. These businesses appeal to different sectors of the UK population 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 Travel Inn. This sector has proven to be robust in times of lower economic activity. 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 leisure 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. In addition, David Lloyd Leisure, while currently part way through a recovery plan, is nevertheless the leader in the health and racquet clubs sector and has recently been outperforming its competitors in that sector.

An important part of ensuring that Whitbread continues to compete effectively is the analysis that the Company'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 of 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 Company's businesses. A breakdown in the supply chain would reduce the ability of the businesses to deliver the experience its customers expect.

Two suppliers have been identified as being key suppliers, the failure of which would be a potential risk to Whitbread. The Company 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 Company's customers would put the Company'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 Company's customers depends on Whitbread recruiting and retaining people of a high quality. The failure to employ the right people would put the Company's reputation at risk and could lead to the loss of market share.

Whitbread is proud of its people. The Company 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 page 19 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. In order to guard against such an eventuality, 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 Company's approach to health and safety can be found on page 20 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 Travel Inn businesses. Failure to expand these businesses at a fast enough rate could adversely affect the Company's future performance.

Whitbread has announced ambitious plans to expand both Premier Travel Inn and Costa. The Company has a target of 45,000 Premier Travel Inn rooms in the UK and over 1,000 Costa stores worldwide by 2010/11. Dedicated development teams and acquisition managers have been tasked with meeting these targets and have succeeded in meeting the targets set for 2006/7.

Restaurants

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

In 2006 a new management team was put in place with the intention of improving the key areas of pricing, food quality, environment and service. The results in 2006/7 show that the changes that were made in 2006 are starting to have a positive effect.

David Lloyd Leisure

The leisure market in which David Lloyd Leisure operates is highly competitive and two competitors have recently been bought by privately funded firms. The management at David Lloyd Leisure is focusing on a two-year turnaround programme, which is concentrating on a number of factors including improving the physical environment of the clubs and ensuring that appropriately talented people are managing the clubs.

External financial risks

Utility costs

In common with any significant company in the leisure 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 on pages 18 and 19 of the Annual Review.

Wage inflation

The minimum wage has increased faster than the rate of general wage inflation over the last four years. It currently stands at £5.35 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 this continuing risk by reviewing its operating procedures and improving productivity through the use of labour scheduling techniques.

Pension funding

Whitbread operates a defined benefit pension scheme. At 1 March 2007, there was a gross pension fund deficit of £196 million. There is a risk that this deficit could grow in the event, for example, of poor investment performance or increasing mortality rates. 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. As an alternative, a defined contribution pension scheme is available to eligible new employees. Whitbread also maintains a close dialogue with the pension scheme's Trustee Board. In order to reduce the funding deficit in the scheme, the Company has made additional contributions of £100 million since September 2005 and committed to further injections of £140 million over the next four years. These contributions were agreed with the Trustee Board in advance of the Company's recent returns of cash to shareholders.

The Company is committed to high standards of corporate governance. In this report Simon Barratt, Company Secretary, 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, three executive directors and five independent non-executive directors, one of whom has been appointed Senior Independent Director. Profiles of each director can be found on pages 22 to 23 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.

The Board is satisfied that Charles Gurassa's Board membership continues to be appropriate even though he has served for more than six years. The Board took into account the need for progressive refreshing of its membership in coming to this conclusion.

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, making recommendations to the Board, which are subsequently considered and ultimately 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 13 times last year. Before meetings 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 7;
- 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;
- 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;
- 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 Company Secretary, 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;
- 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 Enterprise Leadership Group – a Group of over 40 of the Company's most senior executives;
- 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, are 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 held a meeting with the other directors to discuss the Chairman's performance. 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 Company Secretary 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 Company Secretary.

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 on a number of subjects, including the Companies Act 2006, the impact of climate change on business and the Transparency Directive.

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.

The Chairman made himself available to shareholders and attended an 'Investor Day' at which he discussed governance and strategy with some of the Company's largest shareholders.

Recent topics of interest to investors have been the turnaround in Restaurants and David Lloyd Leisure and the balance sheet review.

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, Chief Executive or, if more appropriate, the Senior Independent Director 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 Company Secretary 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 9 to 17. In addition, the table on page 7 contains details of the membership, terms of reference and activities of the Remuneration Committee.

What board committees does the Company have?

The table on page 7 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 comprises the executive directors together with the Company Secretary, Simon Barratt, and meets at least monthly in preparation for Board meetings; and
- the Executive Council meets monthly to consider Group-wide policies and issues. It is attended by the executive directors, the managing directors of each strategic business unit and certain of the functional directors.

Attendance at meetings

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings in the year	**13**	**3**	**2**	**7**
Anthony Habgood	13		2	3[1]
Alan Parker	13		2	
Angie Risley	13			
Christopher Rogers	13			
Philip Clarke	10			6
Margaret Ewing	12	3	2	6
Charles Gurassa	13	3	2	7
Rod Kent	11	2	1	6

[1] *Anthony Habgood was appointed as a member of the Remuneration Committee on 19 September 2006. Three Remuneration Committee meetings were held after his appointment.*

Board committees

	Audit Committee	Nomination Committee	Remuneration Committee
Chair	Margaret Ewing*	Anthony Habgood	Charles Gurassa
Members of committee	Charles Gurassa Rod Kent Simon Melliss	Margaret Ewing Charles Gurassa Rod Kent Alan Parker	Philip Clarke Margaret Ewing Anthony Habgood Rod Kent
Summary of key issues addressed during the year	The Committee dealt with: • Group and strategic business unit 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; • operational audit plans and outcome of reviews.	The Committee discussed: • The appointment of Simon Melliss; • The appropriate composition of the Board.	The Committee dealt with: • remuneration of the executive directors; • appointment of Anthony Habgood as a member of the Committee; • 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 Company Secretary.

* *Simon Melliss will become Chairman of the Audit Committee on 1 May 2007. Margaret Ewing will remain a member of the Audit Committee until she steps down from the Board in July 2007.*

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 widely briefed to 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 whistleblowing policy. Under the policy employees are able to speak to an independent organisation and any significant financial or control 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 2006/7 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 the appropriate action plans;
- the consideration of risks and the 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 7.

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 Company Secretary produced a review of the Company's corporate governance procedures, which was considered by the Board in January 2007. The aim of the review was to consider whether the Company was in compliance with the 2003 Code at the date of the review. The Board agreed that the Company was in compliance with the Code at the date of the review, with one exception as outlined below.

Has the Company complied throughout the year with the provisions of the Combined Code?

The Company has complied throughout the year with the provisions set out in Section 1 of the 2003 Combined Code with the following exception:

- Anthony Habgood was appointed as a member of the Remuneration Committee on 19 September 2006. Anthony is not an independent director and, as such, the Committee was not made up of independent directors throughout the year (B2.1).

The appointment of Anthony Habgood to the Committee was the result of the early implementation of changes made by the new 2006 Combined Code. The Company will be required to comply with the 2006 Code in the 2007/8 financial year and is fully compliant with the new Code at the date of this report.

Simon Barratt
Company Secretary

23 April 2007

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 2006/7. 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

Philip Clarke

Margaret Ewing

Rod Kent

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 of the Company.

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 Company's remuneration policy apply to all the 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 Company'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 2006/7 the Committee met seven times; details of the directors' attendance can be found on page 7. 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 Company Secretary.

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

The Committee receives internal advice from Angie Risley, Human Resources Director. The secretary to the Committee is Simon Barratt, Company Secretary.

The graph on page 11 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 Company policy for directors' remuneration for 2007/8 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 Company'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 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.

Pensions

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.

In response to the tax reforms to pension provision in April 2006, the Remuneration Committee reviewed its policy on future pension provision, with a view to ensuring that there will be appropriate choices for our executives going forward at no additional cost to the Company.

The principles that we used for this review were:

- the Company would not be meeting any increased tax burden of the executive directors arising as a result of the reforms;
- no advance payments would be made to pension funds;
- a limited number of choices would be offered to all executives;
- the changes would save costs for Whitbread;
- Whitbread would mitigate its balance sheet risk on existing pension obligations and limit its exposure on any future commitments;
- executives would be offered the opportunity to leave the pension scheme and receive cash supplements instead of pension. The value of the cash alternative would depend on when the executive had joined the scheme;
- joiners after 31 December 2001 would be able to choose to leave the money purchase section of the scheme and receive a monthly cash payment equal to the contribution less an amount equal to the employer's national insurance payable on this amount;
- executives who joined after 1989 but before 31 December 2001 would be able to choose to opt out of the final salary section of the scheme and receive cash payments (see below) in lieu of future pension accrual both for future and past pensionable service; and
- executives who joined before 1989 would be able to choose to opt out of the scheme for future pensionable service, but remain in the scheme in respect of past pensionable service. For this reason, the equivalent cash payments for this category would be less than that for joiners after 1989.

The cash supplements were calculated by an independent actuary and consisted of:

i) annual cash supplements equivalent to those available to a new executive under the Company's current pension arrangements plus, where necessary,

ii) an additional fixed amount payable at retirement (or annual amounts, if the executive prefers, payable on a money purchase basis into the pension scheme), calculated to reflect the actual cost of the benefits before the change.

The cash supplements will be reduced to reflect the Company's expected national insurance liability.

The assumptions adopted will lead to lower pension costs for the Company in future.

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

As a result of the above changes, 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.

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 rewards.

The Whitbread Leadership Group Incentive Scheme applies to over 40 executives. The levels of rewards 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 awards payable under the scheme 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 rewards will be earned. Targeted level of performance will be consistent with budgeted performance, and stretch will be significantly above budget.

In addition, 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 6 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.

The 2007/8 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.

Historical TSR performance

This graph looks at the value, by 1 March 2007, of £100 invested in Whitbread PLC between 1 March 2002 and 1 March 2007 compared with that of £100 invested in the FTSE 100 Index, based on 30 trading day average values.

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 value of the rewards is calculated and independently verified for the Committee by New Bridge Street Consultants LLP.

Long Term Incentive Plan

During the year we have decided to make a change to the way in which the Long Term Incentive Plan operates. The Plan no longer forms part of the Whitbread Leadership Group Incentive Scheme, and awards under the Plan will, in future, be calculated based on a percentage of the executive's salary. We believe that this is appropriate to ensure that the Plan is used to incentivise the executive over the three-year performance period rather than focusing on an individual year. We have added a second performance condition to future awards under the Plan. Half of future awards will require a relative TSR target to be met and the other half of future awards will require an earnings per share growth target to be met.

The executive directors, together with selected other senior executives, may be granted an annual award under the Long Term Incentive Plan. 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 in TSR comparator Group	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 will be:

Whitbread's average annual EPS compound growth over three years	Vesting schedule
RPI +10%	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 2007, i.e. those awards granted in 2004, the performance condition was relative TSR and was partially met, resulting in a vesting level of 72.7%. The comparator Group comprised 22 comparators at the time of measurement and Whitbread was ranked ninth, which is between median and 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.

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

Angie Risley	1 May 1990
Alan Parker	1 September 1992
Christopher Rogers	1 May 2005

Angie Risley's contract will terminate on 22 May 2007 when she leaves Whitbread.

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
Charles Gurassa	26 July 2000
Rod Kent	30 August 2002
Margaret Ewing	31 May 2005
Philip Clarke	29 November 2005
Simon Melliss	23 March 2007

Simon Melliss will stand for election and Anthony Habgood will stand for re-election at the 2007 AGM.

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

Base fee	£45,000
Chair of Audit or Remuneration Committee	£10,000
Senior Independent Director	£10,000

Rod Kent will also receive a fee of £20,000 per annum for acting as Chairman of Whitbread Pension Trustees Limited.

Fees from external directorships

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

Angie Risley	£24,034
Christopher Rogers	£18,750

Directors' remuneration for the year to 1 March 2007 (audited information)

The table below shows a breakdown of the various elements of pay received by the directors for the period from 3 March 2006 to 1 March 2007:

	Basic salary £	Cash in lieu of pension £	Taxable benefits £	Performance related awards* Cash £	Performance related awards* Deferred equity £	Total excluding pensions 2006/7 £	Total excluding pensions 2005/6 £
Chairman							
Anthony Habgood	250,000	–	–	–	–	**250,000**	208,333 [2]
Executive directors							
Alan Parker	640,072 [1]	166,248	15,397	462,231	630,000	**1,913,948**	917,154
Angie Risley	326,835 [1]	76,475	4,950	388,615	–	**796,875**	386,151
Christopher Rogers	409,749 [1]	84,953	1,031	288,895	393,750	**1,178,378**	494,432
Non-executive directors							
Philip Clarke	45,000	–	–	–	–	**45,000**	7,500 [2]
Margaret Ewing [3]	55,000	–	–	–	–	**55,000**	33,333 [2]
Charles Gurassa [4]	55,000	–	–	–	–	**55,000**	52,500
Rod Kent [5] [6]	55,000	–	–	–	–	**55,000**	51,667

Total emoluments for the year were £4,349,201. The total for 2005/6 was £2,674,018.

* The performance related awards include two cash elements (one of which is based on WINcard targets) and a deferred equity element described on page 14. In addition, Alan Parker and Christopher Rogers received awards under the Long Term Incentive Plan (LTIP) to the value of £787,500 and £492,188 respectively. The LTIP awards are conditional on the achievement of a combined TSR/EPS target described on pages 11 and 12. In view of Angie Risley's resignation from the Company, and in accordance with the terms of the scheme, Angie received the two cash elements and a cash award equivalent to half of the deferred equity element. Angie did not receive an LTIP award.

(1) *Includes a car allowance payment.*

(2) *Fees for part-year.*

(3) *Includes fees as Chairman of the Audit Committee.*

(4) *Includes fees as Chairman of the Remuneration Committee.*

(5) *Includes fees as Senior Independent Director.*

(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 is accruing benefits under any other company pension arrangements. No elements of the executive directors' pay packages are pensionable other than base salaries.

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

Defined benefit

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

	Accumulated accrued benefits, 1 March 2007 £	Increase in accrued benefits during the year £	Increase/(decrease), before inflation, in accrued benefits during the year £	Transfer value of increase/(decrease), before inflation, less any directors' contributions £ *
Alan Parker	**121,696**	6,306	2,152	43,132
Angie Risley	**117,614**	3,722	(378)	(5,263)

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

	1 March 2007 £	2 March 2006 £	Movement, less directors' contributions £ (1)
Alan Parker	**2,432,531**	2,159,659	272,872
Angie Risley	**1,482,212**	1,467,377	14,335

* *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 on page 13. 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 1 March 2007, he was entitled to an accrued lump sum of £4,289,124 (2 March 2006: £4,014,664). He also received a cash supplement of £166,248 during the year.

Angie Risley is entitled to a defined benefit pension under the Whitbread Group Pension Fund as set out in the table on page 13. She received a cash supplement of £76,475 during the year.

Defined contribution

Christopher Rogers received employer pension contributions into the Company's money purchase scheme of £2,640. In addition, he received a cash supplement of £84,953 during the year.

Deferred Bonus Plan ('the Plan') (audited information)

At 1 March 2007 the directors held the following deferred shares under the Plan:

	Year of award	Balance at 3/3/06	Awarded	Lapsed	Vested	Balance at 1/3/07	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	6/5/07	768.5p	–	–	–
	2005	17,731	–	–	–	17,731	1/3/08	904.3p	–	–	–
	2007	–	37,701	–	–	37,701	1/3/10	1,671p	–	–	–
		24,562	37,701	–	–	62,263					
Angie Risley	2004	6,994	–	–	–	6,994	6/5/07	768.5p	–	–	–
	2005	8,865	–	–	–	8,865	1/3/08	904.3p	–	–	–
		15,859	–	–	–	15,859					
Christopher Rogers	2007	–	23,563	–	–	23,563	1/3/10	1,671p	–	–	–
		–	23,563	–	–	23,563					

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. In the case of awards granted in 2004 the proportion that would lapse is 50% if the director were to leave before 6 May 2007. For awards granted in 2005, 50% would lapse if the director leaves before 1 March 2008. For awards granted in 2007, 100% would lapse if the director leaves before 1 March 2008, 75% would lapse if the director leaves between 1 March 2008 and 28 February 2009 and 50% would lapse if the director leaves between 1 March 2009 and 28 February 2010.

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

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

	Year of award	Balance at 3/3/06	Awarded	Lapsed	Vested	1/3/07	Conditional award granted	Performance period concludes	Market price at award	Date award vested	Market price at vesting	Monetary value of vested award (£)
A Parker	2004	33,169	–	9,056	24,113 [1]	–	1/3/04	28/2/07	753.7p	1/3/07	1,632p	393,524
	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	–	–	–
		55,333	47,127	9,056	24,113	69,291						393,524
A Risley	2004	12,359	–	3,375	8,984 [1]	–	1/3/04	28/2/07	753.7p	1/3/07	1,632p	146,619
	2005	11,082	–	–	–	11,082	1/3/05	29/2/08	904.3p	–	–	–
		23,441	–	3,375	8,984	11,082						146,619
C 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	–	–	–
		34,835	29,454	–	–	64,289						–

[1] *Alan Parker and Angie Risley had not exercised their nil-cost options at the date of this report.*

Participation in the Plan is available to executive directors and selected members of the Executive Council. The Plan 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 Plan rewards executives with shares rather than cash benefits. Awards are subject to a three-year performance period prior to vesting.

Information on the awards made in 2004

The 2004 awards were calculated by taking half of the executive's salary at the start of the financial year and dividing it by the Whitbread share price averaged over the five business days preceding the start of the performance period. The performance measure was TSR. The awards would have vested in part if the Company had performed at median, increasing to full vesting for top quartile performance relative to the comparator Group of companies. This means that at the 50th percentile, 50% of the award would have been paid and at the 75th percentile, 100% of the award would have been paid, with a straight line operating in between. Whitbread's actual ranking against the comparator Group for the 2004 LTIP award was ninth out of 22 comparators. As a result, the awards have partially vested at a level of 72.7%.

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. 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 will be subject to a relative TSR performance condition for half of the award and an EPS growth target for the other half of the award. Further details can be found on pages 11 to 12 of the remuneration report.

Information on future awards

Details on the policy with regard to future awards under the Plan can be found on page 11.

Comparator Groups

The comparator Group for the awards made in 2004 and 2005 were the constituents of the FTSE All Share Hotels and Leisure index with a market capitalisation of over £150 million as at 1 March 2004 and 1 March 2005 respectively. The comparator Group for the awards made in 2006 was 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 comprises constituents of the FTSE 51-150 at the date of the award.

Share options (audited information)

The Remuneration Committee has no current intention of granting any further executive options. The last grant made under the Company'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 will require Whitbread to have earnings per share growth of RPI plus 12% in 2007/8 compared to that for 2004/5. There will be 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% 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 Company's adjusted earnings per share exceeded RPI plus 12% measured over any three consecutive years out of the 10 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 2004. Options granted between June 1997 and June 2003 are currently exercisable. Options granted in May 2004 will become exercisable on 17 May 2007.

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

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

At 1 March 2007 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 2000, with the latest being May 2015. Savings-related share options have a six-month exercise period.

Alan Parker	Number	Date of grant	Exercise price	Exercise date	Last exercise date
Executive Share Option Schemes	5,000	6 June 1997	778.5p	June 00	June 07
	25,300	5 June 1998	1,027.0p	June 01	June 08
	4,600	16 June 1999	1,101.0p	June 02	June 09
	50,000	26 July 2001	661.4p	June 04	June 11
	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
Total number of shares under option	**264,900**	**(268,739 at 2 March 2006)**			

Angie Risley	Number	Date of grant	Exercise price	Exercise date	Last exercise date
Executive Share Option Schemes	2,200	5 June 1998	1,027.0p	June 01	June 08
	5,100	16 June 1999	1,101.0p	June 02	June 09
	36	10 June 2002	641.0p	June 05	June 12
	50,000	17 May 2004	756.0p	May 07	May 14
Savings-related Share Option Scheme	1,236	30 November 2005	756.0p	February 09	July 09
Total number of shares under option	**58,572**	**(126,136 at 2 March 2006)**			

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 2 March 2006)**			

Options exercised (audited information)

Executive Share Option Schemes

	Date of grant	Number granted	Option price	Exercise period	Exercise date	Number exercised	Price on exercise [1]	Gain (£)
Angie Risley	19 June 1996	3,500	739.2p	June 1999 to June 2006	28 April 2006	3,500	1,154.0p	14,518
	6 June 1997	4,100	778.5p	June 2000 to June 2007	28 April 2006	4,100	1,126.0p	14,248
	10 June 2002	29,964	641.0p	June 2005 to June 2012	2 August 2006	29,964	1,232.0p	177,087
	9 June 2003	30,000	642.5p	June 2006 to June 2013	2 August 2006	30,000	1,232.0p	176,850

Options exercised (audited information) continued

Savings-related Share Option Scheme

	Date of grant	Number granted	Option price	Exercise period	Exercise date	Number exercised	Price on exercise [1]	Gain (£)
Alan Parker	4 December 2001	3,839	431.0p	February 2007 to July 2007	1 February 2007	3,839	1,642.0p	46,490 *

The aggregate gain made by directors on the exercise of options was £429,193 (2005/6: £858,013).

[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.*

* *The director retained the shares on exercise, but had the shares been sold this is the gain that would have been made.*

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 Deferred Bonus Plan. As at 20 April 2007, the ESOT held 746,402 shares. The executive directors each have a technical interest in these shares as potential beneficiaries of the trust. All ordinary dividends on shares in the ESOT are waived by the Trustee. During the period from 1 March 2007 to 23 April 2007, no director has exercised an option to call for the transfer of shares from the ESOT.

Share schemes – effect of share consolidations

On 23 June 2006 there was a share consolidation under which shareholders received 17 new shares of $68\frac{32}{51}$p each for every 20 old shares of $58\frac{1}{3}$p each held. On 5 January 2007 there was a further share consolidation under which shareholders received 42 new shares of $76\frac{122}{153}$p each for every 47 old shares of $68\frac{32}{51}$p each held. Options and awards under the Company's executive share option schemes, the Savings-related Share Option Scheme, the Long Term Incentive Plan and the Deferred Bonus Plan were not re-stated as a result of either of these share consolidations. All options and awards held at the start of the year relate to ordinary shares of $58\frac{1}{3}$p each and all options and awards held at the end of the year relate to ordinary shares of $76\frac{122}{153}$p each.

Share price information

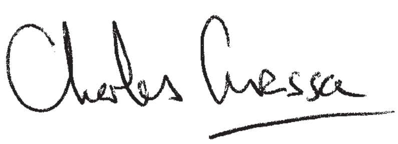
The mid-market price of Whitbread ordinary shares on 1 March 2007 was 1,632p (2 March 2006 – 1,088.5p). On 23 June 2006 there was a share consolidation under which shareholders received 17 new shares of $68\frac{32}{51}$p each for every 20 old shares of $58\frac{1}{3}$p each held. On 5 January 2007 there was a further share consolidation under which shareholders received 42 new share of $76\frac{122}{153}$p each for every 47 old shares of $68\frac{32}{51}$p each held. As such the price at 1 March 2007 refers to ordinary shares of $76\frac{122}{153}$p each and the price at 2 March 2006 refers to ordinary shares of $58\frac{1}{3}$p each. The highest and lowest price paid for ordinary shares during the year were as follows:

Type of shares	Relevant dates	Highest price	Lowest price
Ordinary shares of $58\frac{1}{3}$p each	2 March 2006 to 23 June 2006	1,235p	1,013p
Ordinary shares of $68\frac{32}{51}$p each	26 June 2006 to 5 January 2007	1,702p	1,136p
Ordinary shares of $76\frac{122}{153}$p each	8 January 2007 to 1 March 2007	1,725p	1,621p

Changes since 1 March 2007

There have been no changes in directors' interests in ordinary shares since 1 March 2007.

Signed and approved on behalf of the Board



Charles Gurassa
Chairman, Remuneration Committee

23 April 2007

Whitbread PLC
Consolidated accounts 2006/7

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 auditors 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 20 to 57, 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.

Independent auditor's report to the members of Whitbread PLC

We have audited the Group financial statements of Whitbread PLC for the year ended 1 March 2007 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 1 March 2007 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 auditors' 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 Group 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 director's 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 judgments 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 1 March 2007 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

23 April 2007

Consolidated income statement

Year ended 1 March 2007

	Notes	Year to 1 March 2007 Before exceptional items £m	Year to 1 March 2007 Exceptional items (note 6) £m	Year to 1 March 2007 Total £m	Restated Year to 2 March 2006 Before exceptional items £m	Restated Year to 2 March 2006 Exceptional items (note 6) £m	Restated Year to 2 March 2006 Total £m
Continuing operations							
Revenue	3, 4	1,410.8	–	1,410.8	1,491.9	–	1,491.9
Cost of sales		(199.0)	–	(199.0)	(274.7)	–	(274.7)
Gross profit		1,211.8	–	1,211.8	1,217.2	–	1,217.2
Distribution costs		(841.9)	(13.6)	(855.5)	(839.4)	(20.7)	(860.1)
Administrative expenses		(119.4)	(20.8)	(140.2)	(145.1)	(23.9)	(169.0)
Operating profit	4, 5	250.5	(34.4)	216.1	232.7	(44.6)	188.1
Share of profit from joint ventures		–	–	–	0.3	–	0.3
Share of profit from associates		0.6	–	0.6	0.9	–	0.9
Operating profit of the Group, joint ventures and associates		251.1	(34.4)	216.7	233.9	(44.6)	189.3
Net loss on disposal of business and investments		–	–	–	–	(8.7)	(8.7)
Net profit on disposal of pub restaurants		–	196.6	196.6	–	–	–
Profit before financing and tax		251.1	162.2	413.3	233.9	(53.3)	180.6
Finance costs	8	(40.1)	–	(40.1)	(64.0)	(25.5)	(89.5)
Finance revenue	3, 8	2.0	–	2.0	1.2	–	1.2
Profit before tax		213.0	162.2	375.2	171.1	(78.8)	92.3
Tax expense	9	(68.8)	(77.0)	(145.8)	(57.0)	12.8	(44.2)
Net profit from continuing activities		144.2	85.2	229.4	114.1	(66.0)	48.1
Discontinued operations							
Net profit on disposal of businesses		–	48.5	48.5	–	208.0	208.0
Profit for the year from discontinued operations		6.9	(3.3)	3.6	36.0	(27.7)	8.3
	10	6.9	45.2	52.1	36.0	180.3	216.3
Profit for the year		151.1	130.4	281.5	150.1	114.3	264.4
Attributable to:							
Parent shareholders		151.4	130.4	281.8	150.0	114.3	264.3
Equity minority interest		(0.3)	–	(0.3)	0.1	–	0.1
		151.1	130.4	281.5	150.1	114.3	264.4

Dividends paid and proposed per share in respect of the period (pence)	2007	2006
Special	–	135.00
B share dividend	155.00	–
C share dividend	159.00	–
Interim	8.10	7.35
Final	22.15	19.95

Earnings per share (note 11)	Earnings* Year to 1 March 2007 Continuing operations £m	Earnings* Year to 1 March 2007 Total operations £m	Earnings per share Year to 1 March 2007 Continuing operations p	Earnings per share Year to 1 March 2007 Total operations p	Restated Earnings per share Year to 2 March 2006 Continuing operations p	Restated Earnings per share Year to 2 March 2006 Total operations p
Basic for profit for the period	229.7	281.8	100.61	123.43	18.17	99.85
Basic for underlying profit #	144.5	151.4	63.29	66.31	43.10	56.67
Diluted for profit for the period	229.7	281.8	99.83	122.47	18.02	99.03
Diluted for underlying profit #	144.5	151.4	62.80	65.80	42.75	56.20

** Earnings used for earnings per share calculations are after minority interests have been added back.*
 # Underlying profit is profit before exceptional items.

Consolidated statement of recognised income and expense
Year ended 1 March 2007

	Year to 1 March 2007 £m	Year to 2 March 2006 £m
Cash flow and net investment hedges:		
Loss taken to equity	**(1.1)**	(0.3)
Exchange differences on translation of foreign operations	**(0.9)**	1.4
Actuarial gains/(losses) on defined benefit pension schemes	**38.0**	(93.5)
Tax on items taken directly to or from equity	**(11.9)**	28.6
Net gain/(loss) recognised directly in equity	**24.1**	(63.8)
Profit for the period	**281.5**	264.4
Total recognised income and expense for the period	**305.6**	200.6
Attributable to:		
Parent shareholders	**305.9**	200.5
Equity minority interest	**(0.3)**	0.1
	305.6	200.6

Effect of changes in accounting policy on the consolidated statement of recognised income and expense

Equity holders of the parent:		
Net loss on cash flow hedges on first time adoption of IAS 39	**–**	(3.2)

Consolidated balance sheet

At 1 March 2007

	Notes	1 March 2007 £m	2 March 2006 £m
Assets			
Non-current assets			
Intangible assets	13	**78.5**	79.0
Property, plant and equipment	14	**2,487.6**	2,677.1
Investment in joint ventures	16	**1.1**	35.2
Investment in associates	17	**0.9**	0.8
Other financial assets	18	**1.1**	5.4
Derivative financial instruments	26	**56.8**	78.5
		2,626.0	2,876.0
Current assets			
Inventories	19	**12.8**	17.5
Trade and other receivables	20	**67.5**	119.0
Income tax prepayment		**7.1**	21.0
Derivative financial instruments	26	**8.3**	10.2
Cash and cash equivalents	21	**70.5**	49.6
		166.2	217.3
Assets classified as held for sale	10	**59.1**	302.6
Total Assets		**2,851.3**	3,395.9
Liabilities			
Current liabilities			
Financial liabilities	22, 26	**86.3**	145.1
Provisions	24	**6.2**	0.6
Derivative financial instruments	26	**–**	0.3
Trade and other payables	28	**287.1**	277.8
		379.6	423.8
Non-current liabilities			
Financial liabilities	22, 26	**882.8**	874.8
Preference shares	26,29	**3.2**	3.1
Provisions	24	**15.2**	32.5
Derivative financial instruments	26	**5.9**	3.0
Deferred income tax liabilities	9	**309.5**	174.2
Pension liability	35	**196.0**	338.0
		1,412.6	1,425.6
Total Liabilities		**1,792.2**	1,849.4
Net Assets		**1,059.1**	1,546.5
Equity			
Share capital	29	**151.9**	151.1
Share premium	30	**38.1**	36.1
Capital redemption reserve	31	**4.7**	–
Retained earnings	31	**2,738.9**	3,231.8
Currency translation	31	**0.8**	1.7
Other reserves	32	**(1,875.6)**	(1,877.0)
Equity attributable to equity holders of the parent	31	**1,058.8**	1,543.7
Equity minority interest	31	**0.3**	2.8
Total Equity	31	**1,059.1**	1,546.5

Alan Parker
Chief Executive

Christopher Rogers
Finance Director

23 April 2007

Consolidated cash flow statement

Year ended 1 March 2007

	Notes	Year to 1 March 2007 £m	Year to 2 March 2006 £m
Profit for the year		**281.5**	264.4
Adjustments for:			
Taxation charged on total operations	9	**153.3**	39.2
Net finance cost		**37.4**	89.0
Total income from joint ventures		**–**	(6.3)
Total income from associates		**(0.6)**	(10.3)
Gain on disposal of property, plant and equipment		**(195.7)**	(3.0)
Net profit on disposal of businesses and investments		**(48.5)**	(191.7)
Impairment loss on revaluation of Condor joint venture		**–**	29.3
Depreciation and amortisation		**102.8**	118.8
Impairment of property and goodwill		**12.6**	35.2
Reorganisation costs		**–**	13.3
Other non-cash items		**(8.2)**	2.8
Operating profit before working capital changes		**334.6**	380.7
Decrease in inventories		**4.1**	2.3
Decrease/(increase) in trade and other receivables		**74.7**	(18.3)
(Decrease) in trade and other payables		**(4.0)**	(10.3)
Payments against provisions		**(8.7)**	(16.6)
Payment to pension fund		**(102.3)**	(103.0)
Cash generated from operations		**298.4**	234.8
Interest paid		**(39.3)**	(91.5)
Taxes paid		**(12.8)**	(40.7)
Net cash flows from operating activities		**246.3**	102.6
Cash flows from investing activities			
Disposal of investments, subsidiaries and joint ventures – discontinued*	10	**361.5**	889.2
Disposal of investments – continuing		**–**	6.9
Net cash disposed of		**–**	(18.2)
Purchase of property, plant and equipment		**(241.2)**	(228.6)
Purchase of intangible assets		**(2.1)**	(1.6)
Proceeds from disposal of property, plant and equipment		**487.6**	12.0
Acquisition of subsidiary, net of cash acquired		**(2.7)**	(0.2)
Dividends from joint venture		**–**	11.1
Dividends from associates		**–**	71.6
Interest received		**3.2**	1.5
Net cash flows from investing activities		**606.3**	743.7
Cash flows from financing activities			
Proceeds from issue of share capital		**7.6**	14.4
Costs of purchasing own shares		**(275.8)**	(9.5)
Increase in short-term borrowings		**26.1**	6.1
Proceeds from long-term borrowings		**49.1**	610.0
Issue costs of long-term borrowings		**–**	(1.4)
Repayment of long-term borrowings		**(123.4)**	(1,013.0)
Dividends paid	12	**(529.0)**	(475.5)
Net cash flows (used in) financing activities		**(845.4)**	(868.9)
Net increase/(decrease) in cash and cash equivalents		**7.2**	(22.6)
Net foreign exchange difference		**(1.2)**	0.6
Opening cash and cash equivalents		**30.1**	52.1
Closing cash and cash equivalents	21	**36.1**	30.1
Reconciliation to cash and cash equivalents in the balance sheet			
Cash and cash equivalents shown above		**36.1**	30.1
Add back overdrafts		**34.4**	19.5
Cash and cash equivalents shown within current assets on the balance sheet		**70.5**	49.6

** including disposed of net overdraft*

1 Authorisation of financial statements and statement of compliance with IFRS

The consolidated financial statements of Whitbread PLC for the year ended 1 March 2007 were authorised for issue by the Board of directors on 23 April 2007. 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.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 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 IFRS.

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 fixed 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 decision to dispose of the interest in TGI Friday's and the Pizza Hut joint venture, both of which have been classified as discontinued operations.

The segmental note for the comparative period has been restated to reflect the segmental analysis implemented during 2006/7, see note 4 for more details.

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.

IT software

IT software is amortised on a straight-line basis over the estimated useful life of the asset, estimated between three and 10 years. The carrying values are reviewed for impairment if events or changes in circumstances indicate that their carrying value may not be recoverable.

Other

Other 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 their carrying value may not be recoverable.

Property, plant and equipment

Prior to the 1999/0 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. Fixed assets 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 they 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.

2 **Accounting policies** (continued)

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 fixed assets is charged to the income statement.

Profits and losses on disposal of fixed assets 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 its 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 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 profit or loss. 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 brand 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 all trading outlets.

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; it is probable that an outflow of resources will be required to settle the obligation; and 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 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 will include the profit or loss on disposal of property, plant and equipment and impairment in exceptional items.

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, then 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

Sale of food and beverages – revenue is recognised when food and beverages are sold.

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

Leisure club subscriptions – subscriptions are recognised over the period that membership relates to.

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. Revenue 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.

Dividend income

Dividend income is recognised when the Group's right to receive the payment is established.

Cash flows are included net of recoverable VAT.

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 that 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 are 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 are 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 libility 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.

Financial instruments

Other 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 in the income statement for the period.

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 the interest line in the income statement.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or Group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that impairment has occurred the amount of the impairment loss is measured as the difference between the carrying value and the present value of estimated future cash flows. The discount rate is the original effective rate of interest. The carrying amount of the asset is reduced, with the amount of the loss recognised in administrative costs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss is recognised, the previously recognised impairment loss is reversed in the income statement to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that impairment has occurred the amount of the impairment loss is measured as the difference between the carrying value and the present value of estimated future cash flows. The discount rate is the original effective rate of interest. The carrying amount of the asset is reduced, with the amount of the loss recognised in administrative costs.

2 Accounting policies (continued)

Available-for-sale financial assets
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.

Trade and other receivables
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.

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.

Derivative financial instruments
Derivative financial instruments used by the Group are stated at fair value on initial recognition and at subsequent balance sheet dates. Hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

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

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, are 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.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value 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 forecasted 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.

Recognition and derecognition of financial instruments
The recognition of financial instruments occurs when the Group becomes party to the contractual provisions of the instrument.

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

Significant accounting judgements and estimates
Estimation uncertainty – impairment of goodwill
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. This requires an estimation of the value in use of the CGUs to which the goodwill is allocated. 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 13.

2 Accounting policies (continued)

Note 15 describes the assumptions used in impairment testing of tangible fixed assets.

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 have been issued by the IASB, they become effective after the current year end and have not been early adopted by the Group:

International Financial Reporting Standards (IFRS)		Effective date	Adopted by the Group during periods commencing
IFRS 7	Financial Instruments: Disclosures[1]	1 January 2007	2 March 2007
IAS 1	Amendment – Presentation of Financial Statements: Capital Disclosures[2]	1 January 2007	2 March 2007
IFRS 8	Operating Segments[2]	1 January 2009	27 February 2009

International Financial Reporting Interpretations Committee (IFRIC)			
IFRIC 8	Scope of IFRS 2[2]	1 May 2006	2 March 2007
IFRIC 9	Reassessment of Embedded Derivatives[2]	1 June 2006	2 March 2007
IFRIC 10	Interim Financial Reporting and Impairment[2]	1 November 2006	2 March 2007
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions[2]	1 March 2007	2 March 2007
IFRIC 12	Service Concession Arrangements[2]	1 January 2008	29 February 2008

[1] This standard requires additional disclosures to be made for financial instruments. There will be no impact on the reported amounts of financial instruments as a result of adopting this financial standard.

[2] The impact on the Group's financial statements is not expected to be material.

3 Revenue

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

	2006/7 £m	Restated 2005/6 £m
Rendering of services	**458.5**	407.8
Royalties	**7.0**	5.0
Sale of goods	**945.3**	1,079.1
Revenue	**1,410.8**	1,491.9
Finance revenue	**2.0**	1.2
Total revenue	**1,412.8**	1,493.1

4 Segment information

The Group's primary reporting format is business segments and its secondary format is geographical segments. 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 four core areas of operation:

Operation	Nature of operation
Premier Travel Inn	Operation of budget hotels.
Restaurants	Operation of full service and self service pub restaurants.
Costa	Operation of coffee shops.
David Lloyd Leisure	Operation of fitness clubs across the UK, Ireland, the Netherlands, Belgium and Spain, providing racquets, health and fitness club facilities and expertise.

Following the recent reorganisation of the Group and business disposals the segments have been changed to reflect the resultant size and shape of the Group's activities. This has resulted in the renaming of the Pub Restaurants segment to Restaurants and Costa being reported in its own segment. In addition prior year comparatives have been restated to include TGI Friday's and Pizza Hut as discontinued operations.

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 Group's geographical segments are determined by the location of the Group's assets and operations. The Group materially operates within the UK and as such the secondary format of geographical segments is not presented.

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 1 March 2007 and 2 March 2006.

Year ended 1 March 2007	Premier Travel Inn £m	Restaurants £m	Costa £m	David Lloyd Leisure £m	Unallocated £m	Elimination £m	Total continuing operations £m	Discontinued operations £m	Total operations £m
Revenue									
Revenue from external customers	458.5	518.9	172.3	237.3	23.8	–	1,410.8	113.5	1,524.3
Inter-segment revenue	–	–	2.8	–	–	(2.8)	–	–	–
Total revenue	458.5	518.9	175.1	237.3	23.8	(2.8)	1,410.8	113.5	1,524.3
EBIT[1]	156.2	52.3	17.8	46.4	(21.6)	–	251.1	8.0	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	46.4	(21.6)	–	251.4	8.0	259.4
EBIT attributable to shareholders	156.2	52.3	18.1	46.4	(21.6)	–	251.4	8.0	259.4
Segment exceptional items:									
Net profit/(loss) on disposal of property, plant and equipment	(0.2)	0.7	(0.5)	(1.1)	0.7	–	(0.4)	(0.5)	(0.9)
Net release of provision	–	–	–	–	–	–	–	8.2	8.2
Impairment of property and other assets	–	(1.8)	(1.2)	(8.2)	(1.4)	–	(12.6)	–	(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	37.1	(43.7)	–	216.1	10.4	226.5
Operating profit							216.1	10.4	226.5
Share of profit from associates	0.6	–	–	–	–	–	0.6	–	0.6
Non-operating exceptionals:									
Net profit on disposal of pub restaurants	–	196.6	–	–	–	–	196.6	–	196.6
Net profit on disposal of businesses and investments	–	–	–	–	–	–	–	48.5	48.5
Profit before financing and tax							413.3	58.9	472.2
Net finance costs							(38.1)	0.7	(37.4)
Profit before income tax							375.2	59.6	434.8
Income tax expense							(145.8)	(7.5)	(153.3)
Net profit for the year							229.4	52.1	281.5
Assets and liabilities									
Segment assets	1,267.9	622.1	75.4	568.0	–	–	2,533.4	65.4	2,598.8
Investment in joint ventures	1.1	–	–	–	–	–	1.1	–	1.1
Investment in associates	0.9	–	–	–	–	–	0.9	–	0.9
Unallocated assets	–	–	–	–	114.9	–	114.9	–	114.9
Total assets	1,269.9	622.1	75.4	568.0	114.9	–	2,650.3	65.4	2,715.7
Segment liabilities	(50.9)	(61.5)	(18.5)	(44.6)	–	–	(175.5)	(11.9)	(187.4)
Unallocated liabilities	–	–	–	–	(629.8)	–	(629.8)	–	(629.8)
Total liabilities	(50.9)	(61.5)	(18.5)	(44.6)	(629.8)	–	(805.3)	(11.9)	(817.2)
Net assets	1,219.0	560.6	56.9	523.4	(514.9)	–	1,845.0	53.5	1,898.5
Reconciliation of assets and liabilities reported above to those reported on the balance sheet									
Assets reported above	1,269.9	622.1	75.4	568.0	114.9	–	2,650.3	65.4	2,715.7
Non-current derivative assets	–	–	–	–	56.8	–	56.8	–	56.8
Current derivative assets	–	–	–	–	8.3	–	8.3	–	8.3
Cash	–	–	–	–	70.5	–	70.5	–	70.5
Assets per balance sheet	1,269.9	622.1	75.4	568.0	250.5	–	2,785.9	65.4	2,851.3
Liabilities reported above	(50.9)	(61.5)	(18.5)	(44.6)	(629.8)	–	(805.3)	(11.9)	(817.2)
Current financial liabilities	–	–	–	–	(86.3)	–	(86.3)	–	(86.3)
Non-current financial liabilities	–	–	–	–	(882.8)	–	(882.8)	–	(882.8)
Non-current derivative liabilities	–	–	–	–	(5.9)	–	(5.9)	–	(5.9)
Liabilities per balance sheet	(50.9)	(61.5)	(18.5)	(44.6)	(1,604.8)	–	(1,780.3)	(11.9)	(1,792.2)

[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	Premier Travel Inn £m	Restaurants £m	Costa £m	David Lloyd Leisure £m	Unallocated £m	Elimination £m	Total continuing operations £m	Discontinued operations £m	Total operations £m
Other segment information									
Capital expenditures:									
Property, plant and equipment									
Cash basis	**119.6**	**58.0**	**23.0**	**25.6**	**4.7**	**–**	**230.9**	**10.3**	**241.2**
Accruals basis	**124.1**	**61.8**	**24.9**	**28.7**	**4.1**	**–**	**243.6**	**8.5**	**252.1**
Intangible fixed assets	**–**	**–**	**0.3**	**1.8**	**–**	**–**	**2.1**	**–**	**2.1**
Depreciation	**35.0**	**27.0**	**10.6**	**22.3**	**2.3**	**–**	**97.2**	**3.1**	**100.3**
Amortisation	**–**	**–**	**–**	**–**	**2.5**	**–**	**2.5**	**–**	**2.5**

Year ended 2 March 2006 (restated)	Premier Travel Inn £m	Restaurants £m	Costa £m	David Lloyd Leisure £m	Unallocated £m	Elimination £m	Total continuing operations £m	Discontinued operations £m	Total operations £m
Revenue									
Revenue from external customers	392.9	619.9	140.3	224.6	114.2	–	1,491.9	200.3	1,692.2
Inter-segment revenue	–	–	2.7	–	–	(2.7)	–	–	–
Total revenue	392.9	619.9	143.0	224.6	114.2	(2.7)	1,491.9	200.3	1,692.2
EBIT[1]	129.8	74.9	13.3	41.3	(25.4)	–	233.9	39.3	273.2
EBIT[1]	129.8	74.9	13.3	41.3	(25.4)	–	233.9	39.3	273.2
Segment exceptional items:									
Net profit/(loss) on disposal of property, plant and equipment	0.3	1.5	(1.0)	–	–	–	0.8	2.2	3.0
Impairment of property and goodwill	–	(5.7)	(3.3)	(18.3)	(7.3)	–	(34.6)	(0.6)	(35.2)
Reorganisation	–	–	–	–	(10.8)	–	(10.8)	–	(10.8)
Share of profit from joint ventures	(0.3)	–	–	–	–	–	(0.3)	(6.0)	(6.3)
Share of profit from associates	(0.6)	–	–	(0.3)	–	–	(0.9)	(9.4)	(10.3)
Segment result	129.2	70.7	9.0	22.7	(43.5)	–	188.1	25.5	213.6
Operating profit							188.1	25.5	213.6
Share of profit from joint ventures	0.3	–	–	–	–	–	0.3	6.0	6.3
Share of profit from associates	0.6	–	–	0.3	–	–	0.9	9.4	10.3
Non-operating exceptionals:									
Net profit/(loss) on disposal of businesses and investments	–	(1.1)	–	(3.7)	(3.9)	–	(8.7)	200.4	191.7
Impairment loss on revaluation of Condor joint venture	–	–	–	–	–	–	–	(29.3)	(29.3)
Profit before financing and tax							180.6	212.0	392.6
Net finance costs							(88.3)	(0.7)	(89.0)
Profit before income tax							92.3	211.3	303.6
Income tax expense							(44.2)	5.0	(39.2)
Net profit for the year							48.1	216.3	264.4
Assets and liabilities									
Segment assets	1,140.4	876.3	60.5	574.5	–	–	2,651.7	149.5	2,801.2
Investment in joint ventures	5.4	–	–	–	–	–	5.4	264.4	269.8
Investment in associates	0.8	–	–	–	–	–	0.8	10.0	10.8
Unallocated assets	–	–	–	–	175.8	–	175.8	–	175.8
Total assets	1,146.6	876.3	60.5	574.5	175.8	–	2,833.7	423.9	3,257.6
Segment liabilities	(42.3)	(55.4)	(14.0)	(45.4)	–	–	(157.1)	(15.1)	(172.2)
Unallocated liabilities	–	–	–	–	(654.0)	–	(654.0)	–	(654.0)
Total liabilities	(42.3)	(55.4)	(14.0)	(45.4)	(654.0)	–	(811.1)	(15.1)	(826.2)
Net assets	1,104.3	820.9	46.5	529.1	(478.2)	–	2,022.6	408.8	2,431.4

[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 2 March 2006 (restated)	Premier Travel Inn £m	Restaurants £m	Costa £m	David Lloyd Leisure £m	Unallocated £m	Elimination £m	Total continuing operations £m	Discontinued operations £m	Total operations £m
Reconciliation of assets and liabilities reported above to those reported on the balance sheet									
Assets reported above	1,146.6	876.3	60.5	574.5	175.8	–	2,833.7	423.9	3,257,6
Non-current derivative assets	–	–	–	–	78.5	–	78.5	–	78.5
Current derivative assets	–	–	–	–	10.2	–	10.2	–	10.2
Cash	–	–	–	–	49.6	–	49.6	–	49.6
Assets per balance sheet	1,146.6	876.3	60.5	574.5	314.1	–	2,972.0	423.9	3,395.9
Liabilities reported above	(42.3)	(55.4)	(14.0)	(45.4)	(654.0)	–	(811.1)	(15.1)	(826.2)
Current financial liabilities	–	–	–	–	(145.1)	–	(145.1)	–	(145.1)
Current derivative liabilities	–	–	–	–	(0.3)	–	(0.3)	–	(0.3)
Non-current financial liabilities	–	–	–	–	(874.8)	–	(874.8)	–	(874.8)
Non-current derivative liabilities	–	–	–	–	(3.0)	–	(3.0)	–	(3.0)
Liabilities per balance sheet	(42.3)	(55.4)	(14.0)	(45.4)	(1,677.2)	–	(1,834.3)	(15.1)	(1,849.4)
Other segment information									
Capital expenditures:									
Property, plant and equipment									
Cash basis	65.4	54.1	20.9	43.3	5.2	–	188.9	39.7	228.6
Accruals basis	61.9	58.0	21.3	39.2	2.8	–	183.2	35.3	218.5
Intangible fixed assets	–	–	–	–	1.6	–	1.6	–	1.6
Depreciation	32.5	34.8	9.0	22.5	1.9	–	100.7	11.1	111.8
Amortisation	0.2	–	–	–	6.8	–	7.0	–	7.0

5 Group continuing operating profit

This is stated after charging:

	2006/7 £m	Restated 2005/6 £m
Minimum lease payments recognised as an operating lease expense	**63.2**	57.2
Contingent rents	**5.4**	6.9
Operating lease payments	**68.6**	64.1
Amortisation of intangible assets (note 13)	**2.5**	7.0
Depreciation of property, plant and equipment (note 14)	**100.3**	111.8
Cost of inventories recognised as an expense	**188.9**	265.6
Employee benefits expense (note 7)	**445.1**	497.6
Net foreign exchange differences	**(0.1)**	0.2
Principal auditors' fees		
Audit fee	**0.6**	0.6
Non-audit:		
Audit of associates	**0.2**	0.2
Audit related services	**0.3**	0.4
Tax services	**0.1**	0.1
	1.2	1.3

6 Exceptional items

	2006/7 £m	Restated 2005/6 £m
Continuing activities		
Reorganisation costs[1]	**(21.4)**	(10.8)
Impairment of property, plant and equipment (note 15)	**(12.6)**	(21.5)
Net (loss)/profit on disposal of property, plant and equipment	**(0.4)**	0.8
Impairment of goodwill (note 15)	**–**	(5.8)
Impairment of intangible assets (note 15)	**–**	(7.3)
Operating exceptionals	**(34.4)**	(44.6)
Net profit on disposal of pub restaurants[2]	**196.6**	–
Net loss on sale of businesses and investments	**–**	(8.7)
Interest cost of early redemption of debentures (note 22)	**–**	(25.5)
	162.2	(78.8)
Tax on continuing exceptional items	**(77.0)**	12.8
Total continuing exceptional items	**85.2**	(66.0)
Discontinued activities		
Net (loss)/profit on disposal of property, plant and equipment	**(0.5)**	2.2
Warranty and onerous contract provisions[3]	**8.2**	–
Provision for loan write-down[4]	**(5.3)**	–
Impairment loss on revaluation of Condor joint venture (note 10)	**–**	(29.3)
Impairment of property, plant and equipment (note 15)	**–**	(0.6)
Operating exceptionals	**2.4**	(27.7)
Net profit on disposal of businesses (note 10)	**48.5**	200.4
	50.9	172.7
Tax on discontinued exceptional items	**(5.7)**	7.6
Total discontinued exceptional items	**45.2**	180.3
Total exceptional items	**130.4**	114.3

Distribution costs include impairment of £12.6m, reorganisation expenses of £0.6m and loss on disposals of property, plant and equipment of £0.4m. Administration costs include reorganisation costs of £20.8m.

[1] *During 2005/6 the Board instigated a fundamental reorganisation of all central support functions and the financial impact of this decision has continued into the current period. In addition the announced disposal of 235 pubs led to a further restructuring during 2006/7 to reflect the resultant shape of the Group. The costs principally relate to redundancy, closure costs and a pension curtailment credit.*

[2] *During the period 235 trading pubs, together with four sites not yet trading, have been disposed of to Mitchells & Butlers resulting in a profit on disposal after costs of £196.6m. Contingent deferred consideration of as much as £7.5m may be due to Whitbread in future periods. This has not been accounted for due to uncertainty regarding whether it will be received.*

[3] *During the year a provision for an onerous contract was released resulting in a credit to the profit and loss account of £13.3m. In addition, new provisions for warranties on disposals and onerous contracts were created which resulted in a charge to the income statement of £5.1m.*

[4] *As a result of Swallow Hotels Limited going into administration in 2006 we have provided for the deferred consideration on the sale of Swallow branded hotels which occurred during 2003/4. We continue to pursue the outstanding balance and are liaising with the administrators in this matter.*

7 Employee benefits expense

	2006/7 £m	2005/6 £m
Wages and salaries	**408.6**	452.1
Social security costs	**29.1**	34.2
Pension costs	**7.4**	11.3
	445.1	497.6

Included in wages and salaries is a total expense of share-based payments of £5.2m (2005/6: £7.4m), all of which arises from transactions accounted for as equity-settled share-based payment transactions.

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

	2006/7	Restated 2005/6
Continuing operations		
Premier Travel Inn	**8,044**	7,887
Restaurants	**14,030**	16,871
Costa	**3,213**	2,858
David Lloyd Leisure	**3,476**	3,589
Unallocated	**466**	291
Total continuing	**29,229**	31,496
Discontinued operations	**2,474**	2,923
Total	**31,703**	34,419

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

Details of directors' emoluments are disclosed in the remuneration report on pages 9 to 17.

8 Finance (costs)/revenue

	2006/7 £m	2005/6 £m
Finance costs		
Bank loans and overdrafts	**(16.3)**	(24.0)
Other loans	**(24.9)**	(34.5)
Interest capitalised	**1.6**	1.5
	(39.6)	(57.0)
Net pension finance charge (note 35)	**(0.5)**	(7.0)
Finance costs before exceptional items	**(40.1)**	(64.0)
Exceptional finance costs (note 6)	**–**	(25.5)
Total finance costs	**(40.1)**	(89.5)
Finance revenue		
Bank interest receivable	**1.2**	0.7
Income from investments	**0.2**	0.2
Total finance income (on an historical cost basis)	**1.4**	0.9
Impact of hedging arrangments	**0.6**	0.3
	2.0	1.2

9 Taxation

Consolidated income statement for continuing operations	2006/7 £m	2005/6 £m
Major components of the tax charge for continuing operations for the years ended 1 March 2007 and 2 March 2006 are:		
Current tax:		
Current tax expense	**17.7**	1.1
Adjustments in respect of current tax of previous periods	**(0.3)**	(0.4)
	17.4	0.7
Deferred tax:		
Origination and reversal of temporary differences	**128.4**	43.5
	128.4	43.5
Tax reported in the consolidated income statement for continuing operations	**145.8**	44.2

9 **Taxation** (continued)

Consolidated statement of recognised income and expense	2006/7 £m	2005/6 £m
Pensions	**11.9**	(28.6)
Tax reported in equity	**11.9**	(28.6)

A reconciliation of the tax charge applicable to profit from operating activities before tax at the statutory tax rate to the actual tax charge at the Group's effective tax rate for the years ended 1 March 2007 and 2 March 2006 respectively was as follows:

	2006/7 £m	2005/6 £m
Accounting profit before tax from continuing operations	**375.2**	92.3
Accounting profit before tax from discontinuing operations	**59.6**	211.3
Profit reported in the consolidated income statement	**434.8**	303.6
Tax at current UK tax rate of 30% (2006: 30%)	**130.4**	91.1
Effect of different tax rates in overseas companies	**–**	0.7
Effect of associated and joint venture companies	**(0.2)**	(5.0)
Expenditure not allowable/income not taxable in relation to discontinuing operations	**11.9**	(43.9)
Adjustments to tax expense in respect of previous years	**7.0**	(0.4)
Adjustments to deferred tax expense in respect of previous years	**4.2**	(3.3)
	153.3	39.2
Tax expense reported in the consolidated income statement for continuing operations	**145.8**	44.2
Tax expense/(recovery) attributable to discontinued operations	**7.5**	(5.0)
	153.3	39.2

Deferred tax

Deferred tax at 1 March 2007 relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2007 £m	2006 £m	2006/7 £m	2005/6 £m
Deferred tax liabilities				
Accelerated capital allowances	**102.3**	101.5	**2.2**	7.9
Property valuation	**272.6**	184.5	**88.1**	5.2
Gross deferred tax liabilities	**374.9**	286.0		
Deferred tax assets				
Pensions	**(58.8)**	(101.6)	**30.9**	31.0
Tax losses	**(2.8)**	(1.9)	**(1.2)**	–
Other	**(3.8)**	(8.3)	**8.4**	(0.6)
Gross deferred tax assets	**(65.4)**	(111.8)		
Deferred tax expense			**128.4**	43.5
Net deferred tax liability	**309.5**	174.2		

At 1 March 2007 there was no recognised deferred tax liability for taxes that would be payable on the unremitted earnings of overseas subsidiaries of £3.1m.

Tax relief on total interest capitalised amounts to £0.5m (2006: £0.6m).

10 Discontinued operations

On 21 April 2006 Whitbread and Marriott completed the sale of the Marriott joint venture to the Royal Bank of Scotland. The Group's share of the proceeds was £217.6m. The transaction resulted in a loss on disposal before tax for the Group of £25.0m in the current year. On 8 May 2006 the preference and ordinary shares held by Marriott International in Condor 2 were redeemed. As a result Condor 2 became a wholly owned subsidiary of Whitbread PLC.

Outside of the joint venture, Whitbread retained its investment in a further seven of the original properties which have been sold during the year resulting in a net profit on disposal of £4.7m.

On 12 September 2006 Whitbread sold its 50% investment in Pizza Hut UK Limited to Yum! Restaurants Holdings for an agreed value of £112.0m. After adjustments for debt and other liabilities, £99m in cash was received resulting in a profit on disposal of £68.8m. Prior periods presented in these financial statements have been restated to reflect its status as a discontinued operation.

On 17 January 2007 Whitbread announced its intention to dispose of its TGI Friday's business for an aggregate price of £70.4m. Completion took place on 2 March 2007. The associated assets are classified as held for sale at 1 March 2007.

All the properties and investments described above have been reported within discontinued operations for the years presented.

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

	Marriott hotels £m	Pizza Hut £m	Total £m
Sale proceeds	291.3	112.0	403.3
Total net assets sold	(300.5)	(42.8)	(343.3)
Costs of disposal	(11.1)	(0.4)	(11.5)
Net (loss)/profit on disposal of businesses	(20.3)	68.8	48.5
Sale proceeds are made up as follows:			
Cash	274.0	99.0	373.0
Cash foregone in lieu of payment of debt	–	13.0	13.0
Deferred consideration	17.3	–	17.3
Total consideration	291.3	112.0	403.3

On the face of the cash flow, disposals of subsidiaries and investments reported as discontinued operations are the net of cash proceeds of £373.0m and the costs of disposal of £11.5m.

Total net assets sold comprises the following assets and liabilities:

	Total £m
Investment in associate	10.0
Investment in joint venture	277.4
Fixed assets	53.6
Debtors	8.1
Total assets sold	349.1
Creditors	(5.8)
Total liabilities sold	(5.8)
Total net assets sold	343.3

Cash flows relating to discontinued operations are as follows:

Marriott hotels	**Year to 1 March 2007 £m**	Year to 2 March 2006 £m
Net cash inflows from operating activities	**1.2**	14.7
Net cash flows from investing activities	**(5.4)**	(10.2)
Net (decrease)/increase in cash and cash equivalents	**(4.2)**	4.5

10 Discontinued operations (continued)

TGI Friday's	Year to 1 March 2007 £m	Year to 2 March 2006 £m
Net cash inflows from operating activities	9.5	7.5
Net cash flows from investing activities	(2.5)	(8.6)
Net increase/(decrease) in cash and cash equivalents	7.0	(1.1)

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

	Year to 1 March 2007			Restated
	Before exceptional items £m	Exceptional items (note 6) £m	Total £m	Year to 2 March 2006 £m
Revenue	113.5	–	113.5	200.3
Cost of sales	(36.9)	–	(36.9)	(48.0)
Gross profit	76.6	–	76.6	152.3
Distribution costs	(60.3)	(0.5)	(60.8)	(110.3)
Administrative expenses	(8.3)	2.9	(5.4)	(16.5)
Operating profit	8.0	2.4	10.4	25.5
Share of profit from joint ventures	–	–	–	6.0
Share of profit from associates	–	–	–	9.4
Exceptional items (note 6):				
Net profit on disposal of businesses	–	48.5	48.5	200.4
Impairment loss on revaluation of Condor joint venture	–	–	–	(29.3)
Profit before financing and tax	8.0	50.9	58.9	212.0
Finance costs	–	–	–	(1.5)
Finance income	0.7	–	0.7	0.8
Profit before tax	8.7	50.9	59.6	211.3
Income tax expense:				
Related to pre-tax profit	(1.8)	–	(1.8)	(2.6)
Related to pre-tax profit exceptional	–	1.4	1.4	–
Related to prior year disposals	–	(7.1)	(7.1)	–
Related to profit on disposal	–	–	–	7.6
Profit for the year from discontinued operations	6.9	45.2	52.1	216.3

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:

	Year ended 1 March 2007 £m	Year ended 2 March 2006 £m
Assets		
Property, plant and equipment	56.8	58.0
Investment in joint venture (note 16)	–	234.6
Investment in associates (note 17)	–	10.0
Inventories	0.6	–
Trade and other receivables	1.7	–
Total assets	59.1	302.6

11 Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders of £281.8m (2005/6: £264.3m) by the weighted average number of ordinary shares outstanding during the year of 228.3m (2005/6: 264.7m).

The adjusted earnings per share is presented so as to show more clearly the underlying performance of the Group.

Diluted earnings per share is the basic and adjusted basic earnings per share after allowing for the dilutive effect of the conversion into ordinary shares of the weighted average number of options outstanding during the period. The number of shares used for the diluted and adjusted diluted calculation is as follows:

	2006/7 million	2005/6 million
Weighted average number of ordinary shares for basic earnings per share	228.3	264.7
Effect of dilution – share options	1.8	2.2
Adjusted weighted average number of ordinary shares for diluted earnings per share	230.1	266.9

Where the share price at the year end is lower than the option price the options become anti-dilutive. At the year end no such options were in issue (2005/6: 104,671).

Earnings per share on discontinued operations	2006/7 p	Restated 2005/6 p
Basic earnings per share	22.82	81.68
Diluted for profit for the period	22.64	81.00

Adjusted basic earnings per share is calculated as follows:

	Earnings		Earnings per share	
Total operations	2006/7 £m	2005/6 £m	2006/7 p	2005/6 p
Earnings and basic earnings per share	281.8	264.3	123.43	99.85
Earnings and basic earnings per share attributable to:				
Exceptional items – gross (note 6)	(213.1)	(93.9)	(93.34)	(35.47)
Adjust for tax on exceptional items (note 6)	82.7	(20.4)	36.22	(7.71)
Underlying profit and basic earnings per share for profit for the period	151.4	150.0	66.31	56.67

	Earnings		Earnings per share	
Continuing operations	2006/7 £m	Restated 2005/6 £m	2006/7 p	Restated 2005/6 p
Earnings and basic earnings per share	229.7	48.1	100.61	18.17
Earnings and basic earnings per share attributable to:				
Exceptional items – gross (note 6)	(162.2)	78.8	(71.04)	29.77
Adjust for tax on exceptional items (note 6)	77.0	(12.8)	33.72	(4.84)
Underlying profit and basic earnings per share for profit for the period	144.5	114.1	63.29	43.10

	Earnings		Earnings per share	
Discontinued operations	2006/7 £m	Restated 2005/6 £m	2006/7 p	Restated 2005/6 p
Earnings and basic earnings per share	52.1	216.2	22.82	81.68
Earnings and basic earnings per share attributable to:				
Exceptional items – gross (note 6)	(50.9)	(172.7)	(22.30)	(65.24)
Adjust for tax on exceptional items (note 6)	5.7	(7.6)	2.50	(2.87)
Underlying profit and basic earnings per share for profit for the period	6.9	35.9	3.02	13.57

Underling profit is reported on net profit from continuing activities before exceptional items, these being impairment of property, plant and equipment, impairment of goodwill, impairment of intangibles, reorganisation costs, net profit on disposal of fixed assets, net profit on disposal of businesses and investments, interest charge on early redemption of debentures, provision for loan write-down and other material, non-recurring items.

12 Dividends paid and proposed

	2006/7 £m	2005/6 £m
Declared and paid in the year:		
Equity dividends on ordinary shares:		
Final dividend for 2005/6 – 19.95 pence (2004/5: 18.35 pence)	**51.3**	54.6
Interim dividend for 2006/7 – 8.10 pence (2005/6: 7.35 pence)	**17.8**	18.9
Special dividend – 135.00 pence	**–**	402.0
	69.1	475.5
Dividends on other shares:		
B share dividend – 155.00 pence	**264.4**	–
C share dividend – 159.00 pence	**195.5**	–
	459.9	–
Total dividends paid	**529.0**	475.5
Proposed for approval at AGM:		
Equity dividends on ordinary shares		
Final dividend for 2006/7 – 22.15 pence (2005/6: 19.95 pence)	**43.8**	51.7

13 Intangible assets

	Goodwill £m	IT software £m	Other £m	Total £m
Cost				
At 3 March 2005	178.6	35.0	1.2	214.8
Additions	–	1.6	–	1.6
Businesses acquired	0.5	–	–	0.5
Disposals	(96.3)	–	–	(96.3)
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**
Amortisation and impairment				
At 3 March 2005	(16.5)	(4.9)	(0.1)	(21.5)
Amortisation during the year[1]	–	(6.8)	(0.2)	(7.0)
Impairment (note 15)	(5.8)	(7.3)	–	(13.1)
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)**
Net book value at 1 March 2007	**60.5**	**16.8**	**1.2**	**78.5**
Net book value at 2 March 2006	60.5	17.6	0.9	79.0
Net book value at 3 March 2005	162.1	30.1	1.1	193.3

[1] *Amortisation is reported within administration costs in the income statement.*

The carrying amount of goodwill all relates to Premier Travel Inn for 2006/7 and 2005/6.

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 dates it became fully operational.

Other intangibles
Other intangibles comprise the brand name and franchise fee agreement acquired with the Premier Lodge business. These are being amortised over their estimated useful economic lives of periods up to 10 years.

Additions during the year relate to Costa overseas trading licenses which are deemed to have an infinite life.

Capital expenditure commitments
There are capital expenditure commitments of £0.5m in relation to intangible fixed assets at the year end (2006: £nil).

14 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 3 March 2005	2,160.4	848.3	3,008.7
Foreign currency adjustment	(0.4)	(0.1)	(0.5)
Additions	100.3	118.2	218.5
Interest capitalised	2.3	–	2.3
Disposals	(21.2)	(98.7)	(119.9)
Reclassified	(5.5)	5.5	–
Movements to held for sale in the year	(21.7)	69.9	48.2
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
Write offs	(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**
Depreciation and impairment			
At 3 March 2005	(76.7)	(328.0)	(404.7)
Foreign currency adjustment	0.1	(0.2)	(0.1)
Depreciation charge for the year	(17.3)	(94.5)	(111.8)
Impairment (note 15)	(16.2)	(5.9)	(22.1)
Disposals	4.2	92.9	97.1
Reclassified	(0.7)	0.7	–
Movements to held for sale in the year	(12.5)	(26.1)	(38.6)
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 15)	(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)**
Net book value at 1 March 2007	**2,005.0**	**482.6**	**2,487.6**
Net book value at 2 March 2006	2,095.1	582.0	2,677.1
Net book value at 3 March 2005	2,083.7	520.3	2,604.0

Capital expenditure commitments	**2007 £m**	2006 £m
Capital expenditure commitments for tangible fixed assets for which no provision has been made	**43.1**	10.5

Capitalised interest

Interest capitalised during the year amounted to £1.6m using an average rate of 5.5% (2005/6: £2.3m using an average rate of 5.8%). Capitalised interest on continuing operations during 2006/7 was £1.6m (2005/6: £1.5m).

15 Impairment

Impairment losses included in the income statement

In 2006/7 the total impairment losses recognised in the income statement was £12.6m analysed below:

	2006/7 Property, plant and equipment £m	2005/6 Property, plant and equipment £m	2005/6 Goodwill £m	2005/6 IT software £m	2005/6 Total £m
Restaurants	**1.8**	5.7	–	–	5.7
Costa	**1.2**	3.3	–	–	3.3
David Lloyd Leisure	**8.2**	12.5	5.8	–	18.3
Unallocated	**1.4**	–	–	7.3	7.3
Discontinued	**–**	0.6	–	–	0.6
Total	**12.6**	22.1	5.8	7.3	35.2

In 2006/7 the impairment losses have been recognised in the income statement as exceptional distribution costs of £12.6m (2005/6: £22.1m).

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. The future cash flows are based on assumptions from the business plans and cover a five year period. Cashflows beyond the budget period are extrapolated using a 2.5% growth rate (2005/6: 2.5%). This rate does not exceed the average long-term growth rate for the relevant markets.

The discount rate employed is the Group's estimated weighted average cost of capital before tax and reflects the relevant risks of the assets being tested for impairment. The pre-tax discount rate used for 2006/7 is 9% (2005/6: 9%).

Goodwill

Goodwill acquired through business combinations is allocated to groups of CGUs at brand 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. Cash flows beyond the budget period are extrapolated using a 2.5% growth rate (2005/6: 2.5%). This rate does not exceed the average long-term growth rate for the relevant markets. The pre-tax discount rate applied to cash flow projections are 9% (2005/6: 9%).

The resultant impairment review required no impairment of the Premier Travel Inn goodwill carrying value of £60.5m.

16 Investment in joint ventures

Principal joint ventures	Principal activity	Country of incorporation	% equity interest 2007	% equity interest 2006
PTI Gulf Hotels LLC	Hotels	United Arab Emirates	**49**	–
Condor Overseas Holding Limited	Hotels	British Virgin Islands	**–**	50
Pizza Hut UK Limited	Restaurants	England	**–**	50
Stripe Travel Inn Limited	Hotels	England	**–**	50

The investment in PTI Gulf Hotels LLC is held by PTI Middle East Limited.

The Group accounts for joint ventures using the equity method.

16 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	2007 Continuing £m	2006 Continuing £m	2006 Discontinued £m	2006 Total £m
Current assets	**1.2**	9.6	35.9	45.5
Non-current assets	**–**	79.9	525.9	605.8
Share of gross assets	**1.2**	89.5	561.8	651.3
Current liabilities	**(0.1)**	(39.1)	(38.5)	(77.6)
Non-current liabilities	**–**	(17.0)	(516.0)	(533.0)
Share of gross liabilities	**(0.1)**	(56.1)	(554.5)	(610.6)
Loans to joint ventures	**–**	1.8	256.6	258.4
Impairment loss on revaluation of Condor joint venture	**–**	–	(29.3)	(29.3)
Share of net assets	**1.1**	35.2	234.6	269.8

Share of joint ventures' revenue and expenses	2006/7 Continuing £m	2005/6 Continuing £m	2005/6 Discontinued £m	2005/6 Total £m
Revenue	**0.6**	4.0	335.3	339.3
Cost of sales	**(0.2)**	–	(128.8)	(128.8)
Administrative expenses	**(0.3)**	(3.0)	(166.1)	(169.1)
Finance costs	**(0.1)**	(0.5)	(14.6)	(15.1)
Profit before tax	**–**	0.5	25.8	26.3
Income tax expense	**–**	(0.2)	(8.8)	(9.0)
Net profit	**–**	0.3	17.0	17.3

In May 2006 the Group purchased the remaining 50% of the share capital of the Stripe joint venture, which then became a wholly owned subsidiary of the Group. Accordingly, the results of the joint venture have been included in the above table up until the point that the acquisition took place.

At 1 March 2007 joint ventures had capital commitments of £0.1m (2006: £6.0m).

17 Investments in unlisted associates

Principal associates	Prinicpal activity	Country of incorporation	% equity interest 2007	% equity interest 2006
Morrison Street Hotel Ltd	Hotels	Scotland	**40**	40
Neptune Whitbread Hotel Limited	Hotels	England	**–**	20

Both the associates are private entities which are not listed on any public exchange and therefore there is no published quotation price for the fair value of this investment.

The investment held at 1 March 2007 is held by Whitbread Group PLC.

The Group accounts for associates using the equity method except for Neptune Whitbread Hotel Ltd which was classified within assets held for sale and reported within discontinued below for 2005/6.

The following table provides summarised information of the Group's investment in the associate undertakings:

Share of associates' balance sheets	2007 Continuing £m	Continuing £m	Discontinued £m	Total £m
Current assets	**0.4**	0.2	0.6	0.8
Non-current assets	**5.1**	5.0	–	5.0
Share of gross assets	**5.5**	5.2	0.6	5.8
Current liabilities	**(0.7)**	(0.6)	–	(0.6)
Non-current liabilities	**(3.9)**	(3.8)	–	(3.8)
Share of gross liabilities	**(4.6)**	(4.4)	–	(4.4)
Loans to associates	**–**	–	9.4	9.4
Share of net assets	**0.9**	0.8	10.0	10.8

17 Investments in unlisted associates (continued)

Share of associates' revenue and profit	2006/7 Continuing £m	2005/6 Continuing £m	2005/6 Discontinued £m	2005/6 Total £m
Revenue	**2.4**	2.2	136.1	138.3
Profit	**0.6**	0.9	9.4	10.3

18 Other financial assets

	2007 £m	2006 £m
Cost or valuation at 2 March 2006	**5.4**	11.3
Additions	**1.0**	1.9
Disposals	**–**	(7.8)
Provision for loan write-down (note 6)	**(5.3)**	–
Cost or valuation at 1 March 2007	**1.1**	5.4
Non-current	**1.1**	5.4
	1.1	5.4

The Group's other financial assets mainly comprise assets fair valued through profit or loss and relates to an investment in a German hotel. The remaining assets comprise available-for-sale financial assets. These comprise investments in unlisted ordinary shares and have no fixed maturity date or coupon rate and as a result they are not directly exposed to interest rate risk.

As a result of Swallow Hotels Limited going into administration a provision has been created for the deferred consideration of £5.3m on the disposal of Swallow branded hotels during 2003/4. See note 6 for further details.

Currently, available-for-sale investments held by the Group have no quoted market price. Fair value is calculated based on the expected cash flows of the underlying net asset base of the investment.

Available-for-sale financial assets are classified as non-current assets, unless they are expected to be realised within 12 months of the balance sheet date.

No gains or losses relating to the above have been recognised directly in equity.

19 Inventories

	2007 £m	2006 £m
Raw materials and consumables (at cost)	**1.0**	1.3
Finished goods (at cost)	**11.8**	16.2
Total inventories at lower of cost and net realisable value	**12.8**	17.5

20 Trade and other receivables

	2007 £m	2006 £m
Trade receivables	**30.1**	32.9
Amounts owed by joint ventures	**–**	39.8
Amounts owed by associates	**–**	2.8
Prepayments	**19.3**	23.6
Other receivables	**18.1**	19.9
	67.5	119.0

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

21 Cash and cash equivalents

	2007 £m	2006 £m
Cash at bank and in hand	**70.2**	48.6
Short-term deposits	**0.3**	1.0
	70.5	49.6

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 £70.5m (2006: £49.6m).

21 Cash and cash equivalents (continued)

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

	2007 £m	2006 £m
Cash at bank and in hand	**70.2**	48.6
Short-term deposits	**0.3**	1.0
Bank overdrafts (note 22)	**(34.4)**	(19.5)
	36.1	30.1

22 Financial liabilities

	Effective interest rate %	Maturity	Current 2007 £m	Current 2006 £m	Non-current 2007 £m	Non-current 2006 £m
Bank overdrafts	Variable [1]	On demand	**34.4**	19.5	**–**	–
Short-term borrowings	Variable	On demand	**51.9**	25.8	**–**	–
			86.3	45.3	**–**	–
Secured						
Redeemable debenture stock (nominal value £200.5m)	10.94	2011	**–**	–	**240.3**	257.4
Redeemable debenture stock (nominal value £100m)	8.29	2021	**–**	–	**127.2**	135.9
Other loans	Variable [2]	2005 to 2008	**–**	–	**1.2**	1.7
Unsecured						
Bonds (nominal value £100m)	8.41	2007	**–**	99.8	**–**	–
Loan notes	5.0	2005 to 2012	**–**	–	**2.0**	2.0
Revolving credit facility (£280m)	Variable [2]	2008	**–**	–	**277.1**	279.1
Revolving credit facility (£700m)	Variable [2]	2012	**–**	–	**235.0**	198.7
Total			**86.3**	145.1	**882.8**	874.8

[1] *Interest on overdrafts is based on floating rates linked to LIBOR.*
[2] *Interest rates on floating rate loans are all linked to LIBOR.*

Debenture stocks and secured loans are secured by fixed and floating charges on certain Group tangible fixed assets.

Financial covenants

Revolving credit facilities
The debt is subject to interest cover of not less than 3:1 and total net debt not exceeding 3.5 times earnings before interest, tax, depreciation and amortisation (EBITDA), tested twice a year based on interim and final statutory results.

In the event of a breach of these covenants, and during the period that the breach continues, the debt and any outstanding interest may become due and payable immediately on demand from the banks. In addition the facility may be cancelled.

Redeemable debenture stock (nominal value £200.5m and £100m)
For Whitbread Group PLC adjusted share capital and reserves as a proportion of secured indebtedness must be greater than 1.75 times and total indebtedness must be less than 1.75 times consolidated net worth.

In the event of default, if at least one fifth of the Stockholders demand in writing, the debt and any outstanding interest shall become due and payable immediately.

Compliance with these conditions is reviewed by management on a regular basis to ensure that financial covenants are met throughout the year.

Redeemable debenture stock (nominal value £200.5m)
The debenture stock is repayable in one instalment on 31 January 2011 and bears interest at 11.625%.

An interest rate swap has been purchased to swap £192.4m nominal value of the stock for variable rates until 2011.

Redeemable debenture stock (nominal value £100m)
The debenture stock is repayable in one instalment on 9 December 2021 and bears interest at 8.125%.

An interest rate swap has been purchased to swap £100m nominal value of the stock for variable rates until 2021.

Bonds (nominal value £100m)
The bond had an interest rate of 8.25% and matured on 31 January 2007.

Revolving credit facility (£700m)
The revolving credit facility was entered into on 9 December 2005 and runs until 8 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 runs until 8 March 2008. Loans have variable interest rates linked to LIBOR. The facility is multi-currency and hence can include euro denominated borrowings.

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

22 Financial liabilities (continued)

The maturity of the borrowings is as follows:

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**

Year ended 2 March 2006	Within 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Fixed rate	99.8	–	257.6	137.4	494.8
Interest rate swaps	50.0	–	(102.4)	(100.0)	(152.4)
	149.8	–	155.2	37.4	342.4
Floating rate	45.3	2.0	279.1	198.7	525.1
Interest rate swaps	(50.0)	–	102.4	100.0	152.4
	(4.7)	2.0	381.5	298.7	677.5
Total	145.1	2.0	536.7	336.1	1,019.9

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.

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

	2007 £m	2006 £m
Sterling	905.9	950.6
Euro	63.2	69.3
	969.1	1,019.9

At 1 March 2007, the Group had available £467.9m (2006: £502.2m) of undrawn committed borrowing facilities in respect of revolving credit facilities on which all conditions precedent had been met.

23 Movements in cash and net debt

	2 March 2006 £m	Loans acquired £m	Cash flow £m	Foreign exchange £m	Amortisation of premiums and discounts £m	Fair value adjustments to loan capital £m	1 March 2007 £m
Cash at bank and in hand	49.6						70.5
Overdrafts and short-term borrowings	(45.3)						(86.3)
	4.3	–	(20.0)	(0.1)	–	–	(15.8)
Less short-term bank borrowings	25.8	–	26.1	–	–	–	51.9
Cash and cash equivalents	30.1	–	6.1	(0.1)	–	–	36.1
Short-term bank borrowings	(25.8)	–	(26.1)	–	–	–	(51.9)
Loan capital under one year	(99.8)						–
Loan capital over one year	(874.8)						(882.8)
Total loan capital	(974.6)	(9.1)	74.3	1.3	0.9	24.4	(882.8)
Net debt	(970.3)	(9.1)	54.3	1.2	0.9	24.4	(898.6)

24 Provisions

	Onerous contracts £m	Other £m	Total £m
At 2 March 2006	24.1	9.0	33.1
Arising during the year	7.0	4.7	11.7
Utilised	(8.7)	–	(8.7)
Released	(14.1)	(0.6)	(14.7)
At 1 March 2007	**8.3**	**13.1**	**21.4**
Analysed as:			
Current	6.2	–	6.2
Non-current	2.0	13.1	15.2
	8.3	**13.1**	**21.4**

Provisions are discounted where the effect of the time value of money is material.

Onerous Contracts
Onerous contract provisions are expected to be used over periods of up to 30 years.

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

25 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 debt obligations.

Interest rate swaps and interest rate caps and floors are used to achieve the desired mix of fixed and floating rate debt. The Group's policy is to fix or cap 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. In addition the Group swaps fixed rate debt into floating rates to take advantage of the current low interest rate environment. Overall the Group maintains a ratio of fixed rate debt as a proportion of total debt of between 35% to 65%. At the year end, £566.3m (58%) of Group net sterling debt was fixed for an average of 6.4 years, using fixed rate borrowings and interest rate swaps. The average rate of interest on this fixed rate sterling debt was 5.8%. Based on the Group's net debt position at the year end, a 1% change in interest rates would affect costs by approximately £4.0m.

Liquidity risk
The Group mitigates liquidity risk by managing cash generations of 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

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.

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 credit risk on liquid funds and derivatives is limited because the Group only maintains liquid funds, and only enters into derivative transactions, with banks and financial institutions with high credit ratings. The Group also spreads liquid assets over a number of counterparties.

26 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	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Financial assets				
Cash and cash equivalents	**70.5**	49.6	**70.5**	49.6
Interest rate swaps – non-current	**56.8**	78.5	**56.8**	78.5
Interest rate swaps – current	**8.3**	10.2	**8.3**	10.2
Other financial assets	**1.1**	5.4	**1.1**	5.4
Financial liabilities				
Bank overdrafts and short-term borrowings	**86.3**	45.3	**86.3**	45.3
Interest-bearing loans and borrowings	**882.8**	974.6	**885.5**	1,023.6
Interest rate swaps – non-current	**5.9**	3.0	**5.9**	3.0
Interest rate swaps – current	**–**	0.3	**–**	0.3
Preference shares	**3.2**	3.1	**3.2**	3.1

Functional currencies of Group operations

The currency funding for overseas net investments is denominated in a currency which is different from the functional currency of Whitbread PLC.

There are no other material monetary assets and liabilities which are denominated in currencies other than the local currency of the entity owning them. Exchange gains and losses on currency funding for overseas net investments are dealt with in the consolidated statement of recognised income and expense.

27 Derivative financial instruments

Hedges

Cash flow hedges

At 1 March 2007, the Group had interest rate swaps in place to swap a notional amount of £490m (2006: £140m) 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% (2006: 5.425% 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 over the life of the hedges in place as follows:

Floating to fixed rate interest rate swaps:

	£m
Maturity:	
July 2008	(0.8)
February 2009	–
January 2012	0.4
December 2012	0.1
February 2017	1.5
February 2022	3.7
	4.9

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.

Fair value hedges

The Group has derivatives to hedge interest rate risk which swap the fixed interest rate of £292.4m nominal value of the 11.625% debenture stock for variable rates until January 2011, and the 8.125% debenture stock for variable rates until December 2021.

Hedge of net investment in foreign entities

Included in loans at 1 March 2007 is a borrowing of £63.2m (€94m) (2006: £69.3m (€101m)), which has been designated as a hedge of the net investments in the European subsidiaries and is being used to reduce the exposure to foreign exchange risk. Gains or losses on the retranslation of this borrowing are transferred to equity to offset any gains or losses on translation on the net investment in subsidiaries when these hedges are effective.

28 Trade and other payables

	2007 £m	2006 £m
Trade payables	**110.3**	118.6
Other taxes and social security	**42.9**	46.3
Accruals and deferred income	**84.4**	66.3
Other payables	**49.5**	46.6
	287.1	277.8

Terms and conditions of the above financial liabilities:
Interest payable is normally settled quarterly throughout the financial year.

29 Share capital

Ordinary share capital

Authorised	2007 million	2006 million
Ordinary shares of 76.80p each (2006: 58.33p each)	410.2	540.0

Allotted, called up and fully paid ordinary shares of 76.80p each (2006: 58.33p each)	million	£m
At 3 March 2005	299.3	149.6
Issued	2.6	1.5
Share consolidation – 16 May 2005	(42.9)	–
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

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 shares with 42 new ordinary shares.

The combined effect of this changed the par value of the shares from 58.33p to 76.80p.

On 16 May 2005 a share consolidation took place which replaced every seven existing ordinary shares with six new ordinary shares. This changed the face value of the shares from 50p to 58.33p.

During the year to 1 March 2007 options on 1.2m ordinary shares, fully paid, were exercised by employees under the terms of various share option schemes (2005/6: 2.6m).

	B Shares		C Shares	
Preference share capital	2007 million	2006 million	2007 million	2006 million
Authorised				
Shares of 1.00p each (2006: nil)	265.0	–	224.0	–
Allotted, called up and fully paid shares of 1p each (2006: nil)	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	–

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

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

B shareholders are 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.

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

- To receive a one off special dividend of 155 pence per share upon which the B shares were converted to deferred B shares that have 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.

29 Share capital (continued)

C shareholders are entitled to an annual non-cumulative preference dividend paid in arrears on 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 one off special 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, these 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.

There have been no transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

30 Share premium

	£m
At 3 March 2005	23.2
Premium arising on issue of equity shares	12.9
At 2 March 2006	36.1
Premium arising on issue of equity shares	6.8
Bonus issue of preference shares	(4.8)
At 1 March 2007	**38.1**

31 Reserves

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Currency translation £m	Total £m	Minority interest £m	Total equity £m
At 3 March 2005	149.6	23.2	–	(1,870.2)	3,507.4	0.3	**1,810.3**	5.8	**1,816.1**
Effect of adopting IAS 32 and 39	–	–	–	(3.2)	2.3	–	**(0.9)**	(3.1)	**(4.0)**
At 4 March 2005	149.6	23.2	–	(1,873.4)	3,509.7	0.3	**1,809.4**	2.7	**1,812.1**
Total recognised income and expense for the year	–	–	–	(0.3)	199.4	1.4	**200.5**	0.1	**200.6**
Ordinary shares issued	1.5	12.9	–	–	–	–	**14.4**	–	**14.4**
Cost of ESOT shares purchased	–	–	–	(9.5)	–	–	**(9.5)**	–	**(9.5)**
Loss on ESOT shares issued to participants	–	–	–	6.2	(6.2)	–	**–**	–	**–**
Accrued share-based payments	–	–	–	–	7.4	–	**7.4**	–	**7.4**
Movement in joint venture and associates reserves	–	–	–	–	(3.0)	–	**(3.0)**	–	**(3.0)**
Equity dividends	–	–	–	–	(475.5)	–	**(475.5)**	–	**(475.5)**
At 2 March 2006	151.1	36.1	–	(1,877.0)	3,231.8	1.7	**1,543.7**	2.8	**1,546.5**
Total recognised income and expense for the year	–	–	–	(1.1)	307.9	(0.9)	**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**	**(1,875.6)**	**2,738.9**	**0.8**	**1,058.8**	**0.3**	**1,059.1**

31 Reserves (continued)

Nature and purpose of reserves

Share capital

Share capital includes the nominal value on issue of the company's share capital, comprising 76.80p ordinary shares.

Share premium

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

Retained earnings

A portion of retained earnings is undistributable following the adoption of IFRS. The 'revaluation reserve' reported under UK GAAP has been reclassified as retained profit at the date of transition to IFRS.

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.

Capital redemption reserve

A capital redemption reserve has been created on the cancellation of the Group's B and C preference shares (note 29).

32 Other reserves

	Treasury shares £m	Merger reserve £m	Hedging reserve £m	Total other reserves £m
At 3 March 2005	(15.2)	(1,855.0)	–	**(1,870.2)**
Effect of adopting IAS 32 and 39	–	–	(3.2)	**(3.2)**
At 4 March 2005	(15.2)	(1,855.0)	(3.2)	**(1,873.4)**
Total recognised income and expense for the year	–	–	(0.3)	**(0.3)**
Cost of own shares purchased	(9.5)	–	–	**(9.5)**
Loss on ESOT shares issued to participants	6.2	–	–	**6.2**
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)**

Nature and purpose of other reserves

Merger reserve

The merger reserve arose as a consequence of the acquisition in 2000/1 of Whitbread Group PLC by 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. These shares held by the ESOT were purchased in order to satisfy outstanding employee share options and potential awards under the Long Term Incentive Plan (the "Plan") and other incentive schemes.

Treasury shares held by Whitbread PLC	million	£m
At 2 March 2006	1.0	9.5
Cancelled during the year	(0.2)	–
At 1 March 2007	**0.8**	**9.5**

33 Commitments and contingencies

Operating lease commitments

The Group leases various buildings which are used within the Restaurants, Costa, Premier Travel Inn and David Lloyd Leisure 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:

	2006/7 £m	2005/6 £m
Due within one year	**52.9**	48.8
Due after one year but not more than five years	**176.2**	166.5
Due after five years	**768.0**	687.8
	997.1	903.1

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 1 March 2007 is £6.9m (2006: £10.0m).

Contingent liabilities

There were no material contingent liabilities at 1 March 2007 or 2 March 2006.

34 Share-based payment plans

Long-Term Incentive Plan and uplift awards

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

At the 2004 AGM shareholder approval was granted to replace the long-term incentive plan (LTIP) with an uplift awards plan. The uplift plan 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) performance targets over a three year period. Details of the performance targets for the LTIP and the uplift awards scheme can be seen in the remuneration policy on pages 8 to 11.

The options are settled in equity once exercised.

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

	2007		2006	
	Options	WAEP (£ per share)	Options	WAEP (£ per share)
Outstanding at the beginning of the year	**180,079**	**8.16**	477,477	6.23
Granted during the year	**110,325**	**10.77**	76,926	9.04
Exercised during the year	**–**	**–**	(144,240)	6.36
Expired during the year	**(48,507)**	**9.60**	(230,084)	5.58
Outstanding at the end of the year	**241,897**	**9.06**	180,079	8.16
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 options and the related WAEP are as follows:

	2007		2006	
	Options	WAEP (£ per share)	Options	WAEP (£ per share)
Outstanding at the beginning of the year	**448,174**	**7.96**	989,896	7.90
Granted during the year	**67,531**	**10.77**	–	–
Exercised during the year	**(68,469)**	**8.18**	(541,722)	7.85
Expired during the year	**(14,217)**	**8.39**	–	–
Outstanding at the end of the year	**433,019**	**7.96**	448,174	7.96
Exercisable at the end of the year	**–**	**–**	–	–

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, i.e. no opportunity to retest performance will be allowed. This will be the case for the options granted in 2004 and 2005, for which the performance target will require 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 require 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 WAEP are as follows:

	2007		2006	
	Options	WAEP (£ per share)	Options	WAEP (£ per share)
Outstanding at the beginning of the year	**2,211,313**	**7.53**	4,226,934	7.01
Granted during the year	**–**	**–**	50,000	8.31
Exercised during the year	**(795,997)**	**7.15**	(1,696,149)	6.57
Expired during the year	**(62,964)**	**8.01**	(369,472)	6.81
Outstanding at the end of the year	**1,352,352**	**7.22**	2,211,313[1]	7.53
Exercisable at the end of the year	**796,407**	**7.01**	463,113	6.34

[1] *Included within this balance are options over 252,964 shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.*

The weighted average contractual life for the share options outstanding as at 1 March 2007 is between 5 and 6 years and are exercisable at prices between £4.31 and £11.21.

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 3rd or 5th 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:

	2007		2006	
	Options	WAEP (£ per share)	Options	WAEP (£ per share)
Outstanding at the beginning of the year	**2,419,266**	**6.28**	3,749,792	5.18
Granted during the year	**447,856**	**11.21**	721,454	7.56
Exercised during the year	**(542,462)**	**5.42**	(1,154,879)	4.52
Expired during the year	**(725,210)**	**6.30**	(897,101)	5.27
Outstanding at the end of the year	**1,599,450**	**7.92**	2,419,266	6.28
Exercisable at the end of the year	**42,656**	**5.41**	130,722	4.25

The weighted average contractual life for the share options outstanding as at 1 March 2007 is between 3 and 4 years and are exercisable at prices between £4.41 and £11.21.

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 1 March 2007 £m	Year to 2 March 2006 £m
Long-Term Incentive Plan and uplift awards	**0.5**	1.3
Deferred equity	**1.3**	2.2
Executive Share Option Scheme (ESOS)	**0.8**	1.4
Employee share scheme	**2.6**	2.5
	5.2	7.4

34 Share-based payment plans (continued)

The following table lists the inputs to the model used for the years ended 1 March 2007 and 2 March 2006:

	Grant date	Number of shares granted	Fair value (%)	Fair value (£)	Exercise price	Price at grant date	Expected term (years)	Expected dividend yield	Expected volatility	Risk free rate	Vesting conditions
LTIP awards	1.3.2003	226,212	56.9	670,603	0	521.0	3	3.52%	30%	3.41%	Market [1]
	1.3.2004	128,327	58.2	532,367	0	741.0	3	2.76%	29%	4.49%	Market [1]
Uplift awards	1.3.2005	76,926	53.2	373,233	0	912.0	3	2.50%	21%	4.80%	Market [1]
	1.3.2006	110,325	57.9	695,953	0	1,089.5	3	2.40%	18%	4.30%	Market [1]
Deferred equity awards	6.5.2004	597,502	92.5	4,250,181	0	769.0	3	2.66%	n/a	n/a	None
	1.3.2005	99,090	92.7	837,731	0	912.0	3	2.50%	n/a	n/a	None
	1.3.2006	67,531	93.2	685,719	0	1,089.5	3	2.40%	n/a	n/a	None
ESOS awards	2.12.2002	40,000	24.7	54,834	571.5	555.0	#	3.30%	29%	4.61%	Non-market [2]
	9.6.2003	975,000	25.2	1,572,480	642.5	640.0	#	3.10%	30%	3.69%	Non-market [2]
	2.12.2003	32,000	27.4	63,305	719.8	722.0	#	2.83%	29%	5.00%	Non-market [2]
	17.5.2004	996,000	26.2	1,941,483	756.0	744.0	#	3.00%	29%	5.00%	Non-market [2]
	23.5.2005	50,000	24.1	100,859	841.0	837.0	6	3.00%	27%	4.40%	Non-market [2]
SAYE - 3 years	30.11.2004	782,110	33.9	2,353,076	653.0	887.5	3.25	2.60%	28%	4.52%	Non-market [3]
	30.11.2005	516,456	26.0	1,265,575	756.0	942.5	3.25	2.73%	20%	4.28%	Non-market [3]
	29.11.2006	354,835	34.0	1,860,329	1,121.0	1,542.0	3.25	1.82%	18%	4.95%	Non-market [3]
SAYE - 5 years	3.12.2002	485,712	31.3	843,755	441.2	555.0	5.25	3.30%	29%	4.53%	Non-market [3]
	2.12.2003	298,754	32.2	694,555	610.7	722.0	5.25	2.83%	29%	4.97%	Non-market [3]
	30.11.2004	367,707	36.6	1,194,404	653.0	887.5	5.25	2.60%	28%	4.53%	Non-market [3]
	30.11.2005	249,079	29.9	701,923	756.0	942.5	5.25	2.73%	23%	4.27%	Non-market [3]
	29.11.2006	93,021	38.1	546,500	1,121.0	1,542.0	5.25	1.82%	22%	4.83%	Non-market [3]

Assumed that 40% of participants exercise after 3 years providing that there is a 30% gain available, and 25% of participants exercise on a reducing balance basis in years 4, 5, 6 and 7, providing that there is a 20% gain, with the remainder exercising at maturity if "in the money". Also it is assumed that 5% of participants exercise each year as a minimum (if options are in the money).

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 of options grant were incorporated into the measurement of fair value.

At 1 March 2007 there were outstanding options for employees to purchase up to 3.6m (2006: 5.3m) ordinary shares of 76.80 pence each between 2007 and 2015 at prices ranging between £4.13 per share and £11.21 per share.

Employee Share Ownership Plan Trust (ESOP)

The company funds an ESOP to enable it to acquire and hold shares for the LTIP and executive share option schemes. The ESOP currently holds 0.8m shares. All dividends on the shares in the ESOP 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 £1.9m (2005/6: £1.7m).

At the year-end 936 employees were active members of the scheme, which also had 6,333 deferred members.

35 Retirement benefits (continued)

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 1,574 employees were active members of the scheme, which also had 28,347 deferred pensioners and 15,339 pensions in payment.

The pension cost relating to the defined benefit section of the Whitbread Group Pension Fund is assessed in accordance with the actuarial advice from Hewitt, Bacon & Woodrow, 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.

The pension cost for the year has been based on the latest 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.

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 undertaken to fund the pension scheme for a period of up to 15 years and given undertakings to the trustees similar to some of the covenants provided in respect of its banking agreements, up to a value of £300m. As a consequence of the agreement, during the year ended 1 March 2007, ordinary contributions of £50m related to past service and £7.2m for future service, plus £50m of special contributions were paid by Whitbread Group PLC into the Fund. The Group expects to make special contributions of a further £140m over the next three years including £50m during the financial years 2007/8 and 2008/9 and £20m 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 1 March 2007 for IAS 19 purposes were:

	At 1 March 2007	At 2 March 2006
Rate of increase in salaries	**4.5%**	4.2%
Pre April 2006 rate of increase in pensions in payment and deferred pensions	**3.0%**	2.6%
Post April 2006 rate of increase in pensions in payment and deferred pensions	**2.3%**	–
Discount rate	**5.2%**	4.8%
Inflation assumption	**3.0%**	2.7%

The average life expectancies for members aged 65 are set out below. The column labelled 'experience' is the life expectancy based on the mortality rates experienced by the Fund pensioners over the intervaluation period. The 'current pensioner' and 'future pensioner' columns show the allowance for future improvements in life expectancy made in the valuation:

	Experience years	Current pensioner years	Future pensioner years
Male – non-retail	16.6	17.8	20.0
Male – retail	15.4	16.5	18.8
Female – non-retail	19.4	20.6	22.7
Female – retail	18.0	19.2	21.3

The mortality assumptions above are derived from the Fund's measured experience of mortality rates over many years, which are generally higher than in other pension schemes, influenced by the Group's pubs and brewing heritage.

The main valuation assumptions were that the return on investments would be 3.3% per annum above inflation. The average expected remaining service life of current employees is 8 years.

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

	2006/7 £m	2005/6 £m
Current service cost	**7.5**	9.5
Past service cost	**(1.5)**	–
Curtailments	**(1.0)**	(5.5)
Recognised in arriving at operating profit	**5.0**	4.0
Expected return on scheme assets	**(73.0)**	(65.5)
Interest cost on scheme liabilities	**73.5**	72.5
Other finance costs (note 8)	**0.5**	7.0

The net finance cost is reported net within interest expense.

35 Retirement benefits (continued)

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

	2006/7 £m	2005/6 £m
Actual return on scheme assets	**82.5**	171.0
Less: expected return on scheme assets	**(73.0)**	(65.5)
Other actuarial gains and losses	**28.5**	(199.0)
	38.0	(93.5)

The current and past service cost has been included in administrative expenses, the net finance cost has been recognised within interest costs.

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:

	2006/7 £m	2005/6 £m
Present value of funded defined benefit obligations	**(1,562.0)**	(1,576.0)
Fair value of scheme assets	**1,366.0**	1,238.0
Liability recognised in the balance sheet	**(196.0)**	(338.0)

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

	2006/7 £m	2005/6 £m
Opening defined benefit obligation	**1,576.0**	1,357.0
Current service cost	**7.5**	9.5
Net interest cost	**73.5**	72.5
Actuarial losses on scheme liabilities	**(28.5)**	199.0
Contributions from scheme members	**1.0**	4.0
Benefits paid	**(65.0)**	(60.5)
Curtailments	**(1.0)**	(5.5)
Past service cost	**(1.5)**	–
Closing defined benefit obligation	**1,562.0**	1,576.0

Contributions from members are significantly smaller in 2006/7 because a salary sacrifice arrangement was introduced during the year.

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

	2006/7 £m	2005/6 £m
Opening fair value of plan assets	**1,238.0**	1,011.0
Expected return on scheme assets	**73.0**	65.5
Actuarial gains and (losses) on scheme assets	**9.5**	105.5
Contributions from scheme members	**1.0**	4.0
Contributions from employer	**109.5**	112.5
Benefits paid	**(65.0)**	(60.5)
Closing fair value of plan assets	**1,366.0**	1,238.0

Contributions from employer includes £2.3m to fund a transfer of unapproved benefits to the Fund (an explanation is provided in the Directors pension entitlements (see pages 13 and 14)).

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

	Expected return		Fair value of assets	
	2007 %	2006 %	2007 £m	2006 £m
Equities	**8.0**	7.2	**777.0**	669.0
Government bonds	**4.5**	4.2	**399.0**	390.0
Corporate bonds	**5.0**	4.8	**109.0**	132.0
Property	**7.0**	6.2	**47.0**	42.0
Cash	**5.5**	4.5	**34.0**	5.0
			1,366.0	1,238.0

35 Retirement benefits (continued)

History of experience gains and losses:
At the date of transition to IFRS (5 March 2004) the Group decided to early adopt the amendments to IAS 19 issued by the International Accounting Standards Board on 16 December 2004. In accordance with the disclosure requirements of the amended standard, the Group is phasing in the five-year history of experience adjustments, commencing with the date of transition to IFRS. A four-year history is presented.

	2007	2006	2005	2004
Present value of defined benefit obligations (£m)	**(1,562.0)**	(1,576.0)	(1,357.0)	(1,318.0)
Fair value of scheme assets (£m)	**1,366.0**	1,238.0	1,011.0	952.0
Liability recognised in the balance sheet (£m)	**(196.0)**	(338.0)	(346.0)	(366.0)
Experience adjustments on scheme liabilities (£m)	**(6.0)**	(17.5)	(4.5)	(6.0)
Percentage of scheme liabilities (%)	**0.4**	1.1	0.3	0.5
Experience adjustments on scheme assets (£m)	**9.5**	105.5	33.0	118.0
Percentage of scheme assets (%)	**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 (£29.9m) (2006: (£67.9m)). The directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRS and taken directly to equity of £366m is attributable to actuarial gains and losses since inception of these pension schemes. Consequently, the directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Group statements of recognised income and expense before 4 March 2004.

36 Related party disclosure

The Groups' principal subsidiaries are listed in the following table:

Principal subsidiaries	Principal activity	Country of incorporation	% equity interest and votes held 2007	2006
Whitbread Group PLC	Restaurants and hotels	England	**100**	100
Premier Travel Inn Limited	Hotels	England	**100**	100
David Lloyd Leisure Ltd	Leisure	England	**100**	100
Whitbread Hotel Company Ltd	Hotels	England	**100**	100
Costa Ltd	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.

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial year.

Related party	Sales to related parties £m	Amounts owed by related parties £m
Joint ventures:		
2006/7	**0.7**	**–**
2005/6	99.0	39.8
Associates:		
2006/7	**–**	**–**
2005/6	–	2.8

Compensation of key management personnel (including directors)

	2007 £m	2006 £m
Short-term employee benefits	**4.4**	5.3
Post employment benefits	**(0.2)**	0.2
Termination benefits	**0.3**	0.6
Share-based payments	**1.5**	1.6
	6.0	7.7

36 Related party disclosure (continued)

Associates
For details of the Group's investments in associates see note 17.

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

Terms and conditions of transactions with related parties
Sales to and purchases from related parties are made at normal market prices. Outstanding balances at year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables. For the year ended 1 March 2007, the Group has not raised any provision for doubtful debts relating to amounts owed by related parties as the payment history has been excellent (2006: £nil). This 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 9 to 17.

37 Events after the balance sheet date

On 2 March 2007 the Group sold its interest in TGI Friday's for consideration of £70.4m.

A final dividend of 22.15p per share (2006: 19.95p) amounting to a dividend of £43.8m (2006: £51.7m) was declared by the Directors at their meeting on 23 April 2007. These financial statements do not reflect this dividend payable.

Whitbread PLC
Company accounts 2006/7

Directors' responsibilities 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 auditors 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 60 to 63, 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 1 March 2007 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 1 March 2007.

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 auditors' 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 directors' report is consistent with the parent Company 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 Group 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 Group 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 judgments 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

In 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 1 March 2007;
- 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

23 April 2007

Balance sheet

At 1 March 2007

	Notes	2007 £m	Restated 2006 £m
Fixed assets			
Investments in subsidiaries	5	**279.0**	1,154.0
Total non-current assets		**279.0**	1,154.0
Current assets			
Debtors – amounts falling due within one year	6	**23.5**	0.2
Current liabilities			
Creditors – amounts falling due within one year	7	**(0.2)**	–
Net current assets		**23.3**	0.2
Total assets less current liabilities		**302.3**	1,154.2
Preference shares		**(0.1)**	–
Provisions for liabilities and charges	8	**(2.5)**	(5.0)
		299.7	1,149.2
Capital and reserves			
Called up share capital	9	**151.9**	151.1
Share premium account	10	**38.1**	36.1
Capital redemption	10	**4.7**	–
Profit and loss account	10	**114.5**	971.5
Other reserves	10	**(9.5)**	(9.5)
Shareholders' funds	10	**299.7**	1,149.2

Alan Parker
Chief Executive

Christopher Rogers
Finance Director

23 April 2007

1 Basis of accounting

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 FRS1 (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.

The balance sheet for the comparative period has been restated for the effect of a purchase of treasury shares, see note 10 for details.

2 Summary of significant accounting policies

Investments

Investments held as fixed assets are stated at cost less provision for any impairment, less amounts owed to the company's subsidiaries.

Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not been reversed by the balance sheet date. Deferred tax is not recognised when an asset is sold if it is more likely than not that the taxable gain will be rolled over. Deferred tax assets are recognised to the extent that they are regarded as recoverable. Provisions for deferred tax are not discounted. Deferred tax assets and liabilities are calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date.

3 Loss 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 loss earned for ordinary shareholders and included in the accounts of the parent company amounted to £52.3m (2006: £36.0m)

4 Dividends paid and proposed

	2006/7 £m	2005/6 £m
Pence per share		
Special	–	402.0
B share dividend	264.4	–
C share dividend	195.5	–
Interim	17.8	18.9
Final	51.3	54.6
	529.0	475.5

A final dividend of 22.15p per share (2006: 19.95p) amounting to a total dividend of £43.8m (2006: £51.7m) was declared by the directors at their meeting on 23 April 2007. These accounts do not reflect this dividend payable. The 2006 final dividend of 19.95p (£51.3m), the 2007 interim dividend of 8.1p (£17.8m) and the 2006 interim dividend of 7.35p (£18.9m), the B share dividend of 155p (£264.4m) and the C share dividend of 159p (£195.5m) were paid in 2006/7.

5 Investment in subsidiary undertakings

	2007 £m	2006 £m
Shares at cost		
2 March 2006 and 1 March 2007	2,256.1	2,256.1
Amounts due to subsidiary undertakings	(1,977.1)	(1,102.1)
	279.0	1,154.0

Principal subsidiary undertakings	Principal activity	Country of incorporation or registration	Country of principal operations	% of equity and votes held
Whitbread Group PLC	Restaurants and hotels	England	England	100
Premier Travel Inn Limited	Hotels	England	England	100
David Lloyd Leisure Ltd	Leisure	England	England	100
Whitbread Hotel Company Ltd	Hotels	England	England	100
Costa Ltd	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.

6 Debtors

	2007 £m	2006 £m
Amounts falling due within one year		
Trade debtors	–	0.2
Corporate tax recoverable	23.5	–
	23.5	0.2

7 Creditors

	2007 £m	2006 £m
Amounts falling due within one year		
Trade creditors	0.2	–
	0.2	–

8 Provisions for liabilities and charges

	2007 £m	2006 £m
Other provisions	2.5	5.0

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

9 Share capital

	Authorised		Allotted, called up and fully paid	
	2007 £m	2006 £m	2007 £m	2006 £m
Ordinary shares of 76.80p each (2006: 58.33p each)	315.0	315.0	151.9	151.1
Number of ordinary shares in issue (m)			197.8	259.0

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 shares with 42 new ordinary shares.

The combined effect of this changed the par value of the shares from 58.33p to 76.80p.

On 16 May 2005 a share consolidation took place which replaced every seven existing ordinary shares with six new ordinary shares. This changed the face value of the shares from 50p to 58.33p.

During the year to 1 March 2007 options on 1.2m ordinary shares, fully paid, were exercised by employees under the terms of various share option schemes (2005/6: 2.6m).

	B Shares		C Shares	
Preference shares	2007 million	2006 million	2007 million	2006 million
Authorised				
Shares of 1.00p each (2006: nil)	265.0	–	224.0	–
Allotted, called up and fully paid shares of 1p each (2006: nil)	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	–

9 Share capital (continued)

Deferred shares	B Shares 2007 million	B Shares 2006 million	C Shares 2007 million	C Shares 2006 million
Authorised				
Deferred shares in issue*	**170.6**	–	**123.0**	–
Allotted, called up and fully paid shares of 1p each (2006: nil)	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	**–**	–	**–**	–

** Refer to note 29 of the Whitbread PLC consolidated accounts for further details of the preference share issues.*

At 1 March 2007 there were outstanding options for employees to purchase up to 3.6m (2006: 5.3m) ordinary shares of 76.80 pence each between 2007 and 2015 at prices ranging between £4.41 per share and £11.21 per share. During the year to 1 March 2007 options on 1.2m (2006: 2.6m) ordinary shares, fully paid, were exercised by employees under the terms of various share option schemes.

10 Shareholders' funds

	Share capital £m	Share premium £m	Capital redemption reserve £m	Treasury shares £m	Retained earnings £m	Total £m
At 3 March 2005	**149.6**	**23.2**	**–**	**–**	**1,483.0**	**1,655.8**
Issued to employees by exercise of options	1.5	12.9	–	–	–	14.4
Loss for the financial year	–	–	–	–	(36.0)	(36.0)
Cost of own shares purchased	–	–	–	(9.5)	–	(9.5)
Dividends	–	–	–	–	(475.5)	(475.5)
At 2 March 2006	**151.1**	**36.1**	**–**	**(9.5)**	**971.5**	**1,149.2**
Issued to employees by exercise of options	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)
Dividends	–	–	–	–	(529.0)	(529.0)
At 1 March 2007	**151.9**	**38.1**	**4.7**	**(9.5)**	**114.5**	**299.7**

The prior year comparatives for treasury shares have been restated to reflect the purchase of own shares that were accounted for within another Group company at the year-end.

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 PLC Group VAT Group, all members are jointly and severally liable for the liability. At the balance sheet date the Group liability stood at £22.6m.

Analysis of shares

Band	Number of holders	% of holders	Number of shares	% of share capital
1 – 100	29,311	48.85	1,121,771	0.57
101 – 500	21,432	35.72	5,191,871	2.62
501 – 1,000	5,165	8.61	3,612,292	1.83
1,001 – 5,000	3,186	5.31	5,793,506	2.93
5,001 – 10,000	229	0.38	1,601,977	0.81
10,001 – 25,000	186	0.31	2,997,103	1.51
25,001 – 125,000	257	0.43	15,000,512	7.58
125,001 – 250,000	96	0.16	17,375,920	8.78
250,001 – 1,250,000	111	0.18	57,636,783	29.13
1,250,001 – 2,500,000	16	0.03	28,380,939	14.35
2,500,001+	13	0.02	59,131,540	29.89
Total	**60,002**	**100.00**	**197,844,214**	**100.00**

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Whitbread

Welcome with a smile

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