Whitbread PLC

Interim Report and Accounts 2004/5





























The UK's leading hospitality company

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Business and financial highlights

Dividend per share

Return on capital employed

up 12.2%

10.1%*

to 6.9 p

up 0.5% point

* moving annual total, pre-tax, excluding acquisition of Premier Lodge

Whitbread	2004/5	change
Group turnover (£m)	1,027.1	+4.6%
Like-for-like sales growth		+3.0%
Profit before tax and exceptional items $(\pm \text{m})$	147.4	+9.4%
Profit before tax and after exceptional items $({\rm \pounds m})$	147.1	+20.1%
Adjusted earnings per share	35.31p	+10.4%
Basic earnings per share	33.79p	(1.8)%

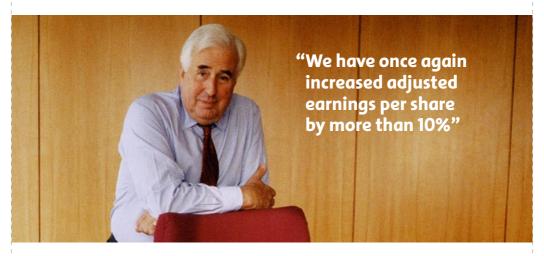




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Chairman's statement



Sir John Banham Chairman

These good results were achieved in mixed market conditions and we have once again increased adjusted earnings per share by more than 10%.

Profit before tax and exceptional items was up 9.4% despite significant disposals in our hotels and restaurants businesses last year. Cash flow remains strong and return on capital employed moved up from 9.6% to 10.1% on a moving annual total (MAT) basis, excluding the impact of the Premier Lodge acquisition (see *Finance Review*).

Although forecasts for the UK economy and consumer spending are mixed, the board remains confident about the group's prospects. Our recently acquired businesses are performing well. We expect further progress in terms of trading performance, organic growth and the more effective use of shareholders' assets.

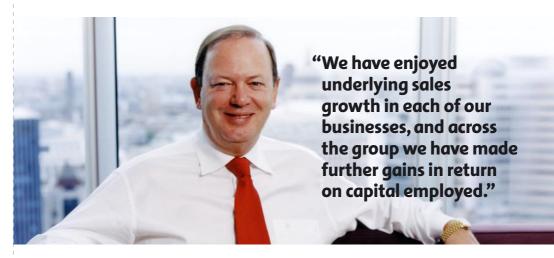
Dividend

This is reflected in the interim dividend of 6.9p per share, an increase of 12%. This will be paid on 4 January 2005 to shareholders on the register at the close of business on 5 November 2004.

On behalf of the board, I should like to thank every member of the Whitbread team for their contribution to this performance.

Sir John Banham Chairman

27 October 2004



Alan Parker Chief executive

A pivotal six months

The first half of the year has been a pivotal period for Whitbread.

Our acquisition in July of Premier Lodge has shifted the balance of the business more strongly into branded budget hotels, a sector where we enjoy clear leadership in the UK. In addition, we have completed a major review of all our brands to inject greater focus and purpose.

We have enjoyed underlying sales growth in each of our businesses, and across the group we have made further gains in return on capital employed.

Current trading

Like-for-like sales growth since the half-year has been maintained at group level with improvements in Marriott and our pub restaurants compensating for a slower period in high street restaurants.

Total sales at the half-year were up 4.6% and subsequently have grown by 5.8%—and 13% including the contribution from Premier Lodge.

Like-for-like sales

	32 weeks	26 weeks
Premier Travel Inn*	6.5%	6.5%
Marriott	5.0%	4.8%
Pub restaurants	1.0%	0.7%
High street restaurants	1.9%	2.7%
David Lloyd Leisure†	3.9%	4.0%
Total group*	3.0%	3.0%

^{*} excludes Premier Lodge acquisition

[†]to 31 weeks; excludes Cannons Health & Fitness BV acquisition

Chief executive's review

Premier Travel Inn

Sales	£142m	+24%
Like-for-like sales*		+6.5%
Operating profit	£49.1m	+28%
Return on capital employed (MAT)*	14.8%	+2.0%pts

^{*}excludes Premier Lodge

Our budget hotels business continues to deliver outstanding performance with strong growth in sales, profits and return on capital employed.

The acquisition of Premier Lodge in July has augmented Whitbread's leading position in this exciting segment of the UK lodging market: with almost 28,000 bedrooms, Premier Travel Inn is by far the largest hotel brand in the UK; and by being in more than 440 different locations, the brand has unparalleled distribution and consumer reach.

Excluding the impact of the acquisition, sales in this business were ahead by 10.7% against last year, and operating profit up 16.4%. Occupancy strengthened from 82% to 84%; average room rate was up by 3.1% to £42.66; and operating margin moved from 33.5% to 35.3%.

The integration of the Travel Inn and Premier Lodge businesses to create Premier Travel Inn is on course for completion by the end of the financial year.

Marriott

Sales	£196m	+0.9%
Like-for-like sales		+4.8%
Operating profit*	£36.7m	+1.4%
Return on capital employed (MAT)*	6.2%	+0.1%pt

^{*}before goodwill amortisation

The full-service sector of the hotels market continues to be challenging, although there are now clear signs of recovery.

For the first time in three years we are able to report growth in both sales and profit. Both rate and occupancy are driving this resurgence: average room rate is ahead year-on-year; and occupancy moved from 72% to 74%. Operating margin improved by 0.1% point to 18.8%.

However, return on capital employed remains unacceptably low at 6.2%.

In September we welcomed Patrick Dempsey as managing director of Whitbread Hotel Company (Marriott). He will focus on growing a business that has more bedrooms under management, operating from a smaller asset base and generating higher returns on capital employed.

Pub restaurants

Sales	£306m	(0.6)%
Like-for-like sales		+0.7%
Operating profit	£48.5m	(9.2)%
Return on capital employed (MAT)	10.1%	(0.9)%pt

Our largest pub restaurant brand, Brewers Fayre continues to deliver solid growth. Declining sales at Brewsters are a result of market positioning rather than a reflection on the quality of the underlying assets. We are confident that we can reverse the negative trend by integrating the outlets within Brewers Fayre.

Lower sales in our pub restaurants is due in part to the disposal of 50 Beefeater outlets last year and the poor performance of Out & Out (which is reported as part of Beefeater).

In addition, Beefeater has been held back by the disruption inherent in its conversion programme, which has led to the loss of trading weeks. 57 outlets have now been converted to the new format and we are continuing to see strong uplift in sales as well as margin improvements in those sites.

Operating margin across our entire pub restaurant business declined by 1.5% points to 15.9%.

We shall be bringing together our pub restaurants under a single management team, headed by Phil Urban. This will deliver greater focus and enhance the benefits of synergy.

High street restaurants

Sales	£221m	+6.7%
Like-for-like sales		+2.7%
Operating profit	£12.2m	+53%
Return on capital employed (MAT)	25.3%	+5.6%pts

Our high street business continues to drive performance improvements in sales, operating margin (up from 3.9% to 5.5%), operating profit, and return on capital employed.

Building on its solid UK base, Costa has developed a successful franchise model that is taking the brand into markets overseas.

T.G.I. Friday's is broadening its distribution through the development of a smaller footprint store. The first new outlets will open in the second half of the year in Bath and in Harroqate.

Pizza Hut continues to grow through a mix of full-service restaurants and franchised home delivery stores.

David Lloyd Leisure

Sales	£109m	+9.3%
Like-for-like sales		+4.0%
Operating profit*	£26.2m	+11.0%
Return on capital employed (MAT)*	9.7%	+0.3%pt

^{*}before goodwill amortisation

David Lloyd Leisure has once again delivered strong growth in operating profit despite a slight softening in like-for-like sales over the summer. This has driven a 0.3% point improvement in return on capital employed.

Membership growth has been held back by lower than anticipated levels of member retention in a number of clubs. Overall, membership retention at the half year stands at 72%. Operating margin improved from 23.7% to 24.1%.

The organic growth prospects of this business are excellent. Our Worthing club will open in November ahead of target with 3,000 members from the first day of trading.

It will bring the number of David Lloyd Leisure clubs in the UK and Ireland to 57, with four openings scheduled for 2005/6.

Meanwhile our fledgling operations in continental Europe are progressing well: we now have six clubs in the Netherlands with a combined membership of more than 23,500; our club in Brussels opens for business in early November with more than 3,000 members; and we are on course to open our Barcelona club in the first half of 2005/6.

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Alan Parker Chief executive

27 October 2004

Finance review

On 25 July 2004 Whitbread acquired the Premier Lodge business ("Premier"). The accounts for the six months to 2 September therefore include 6 weeks trading of Premier and the balance sheet includes the assets and the borrowings the Group took out relating to the acquisition.

Premier

Premier comprised the Premier Lodge business and 19 adjacent pub restaurants. 132 hotels were trading at the acquisition with 9,133 rooms. There were also 9 development sites with approximately 929 rooms. The hotel business is being integrated with Travel Inn under the name Premier Travel Inn. The pub restaurants will be integrated with Brewers Fayre.

The following numbers for Premier are incorporated within the Interim Report and Accounts to 2 September 2004.

Sales	£m 15.4
Profit before interest and tax Interest	4.5 (3.1)
Profit before tax	1.4
Assets	553
Borrowings	545

The whole of the profit and assets of Premier are shown in the Premier Travel Inn segment.

Other than the impact of the above acquisition the numbers year on year are comparable. The asset disposals in 2003/4 were broadly matched by site acquisitions for our expanding brands and, to date, in 2004/5 there has been no significant acquisition or disposal activity.

Turnover

Turnover grew by 4.6% with like-for-like sales growing by 3.0%. Our Marriott business has recorded sales growth and like-for-like sales growth.

Operating profit

Operating profit grew by 7.5%. Growth was led by Premier Travel Inn, High Street Restaurants and David Lloyd Leisure with Marriott also delivering profit growth. Whilst Pub Restaurants declined in the first half with the Beefeater conversions and Brewsters repositioning, profits are expected to recover in the second half.

Profit margins increased from 16.4% to 16.9% as our businesses continue to focus in this area. MAT return on capital for the half year fell from 9.6% to 8.6% as a result of the Premier acquisition. Excluding the profits and assets of Premier, the group MAT ROCE was 10.1%, an improvement of 0.5% points.

Earnings before exceptional items, interest, tax, depreciation and amortisation (EBITDA)

EBITDA is a good measure of the cash generated by each division (see note 2 to the accounts). EBITDA for the Group grew by 7.8% to £240.8m.

Non-operating and exceptional items

The accounts this half year show a small loss of £0.3m on property disposals and no other exceptional items. Last year's numbers relate to the disposal of Swallow Hotels and 50 Beefeater Restaurants.

Interest

Ongoing businesses interest in the half year fell from £26.3m to £22.6m reflecting the strong cash management of the Group. Further interest of £3.1m was incurred on the loans for Premier in the first six weeks.

Net interest was covered 6.7 times (2003/4 – 6.1 times) by operating profit. The full year impact of Premier will reduce this ratio.

At the end of the period £419m of net sterling debt was fixed for a weighted average of 7 years. The weighted average interest rate was 6.8%.

Profit before tax

Profit before exceptional items and tax increased by 9.4%. Profits before tax grew by 20% as last year's exceptional costs were not repeated.

Taxation

As explained in note 1 to the accounts, the tax charge on profit before exceptional items for the interim period has been calculated by applying the forecast effective tax rate for the current year.

The charge against profit of £46.7m represents an effective rate of 31.7% which compares with 32% for the full year in 2003/4. The charge includes deferred tax as detailed in note 5

Earnings per share

Adjusted earnings per share, which excludes exceptional items and goodwill amortisation, increased by 10% to 35.31p.

Dividend

An interim dividend of 6.90p per share, an increase of 12% over last year, will be paid on 4 January 2005 to all shareholders on the register at the close of business on 5 November 2004

Cash flow

The net cash outflow before use of liquid resources and financing was $\pounds(575)$ m compared with an inflow of $\pounds36$ m for the corresponding period. The differences are largely as a result of capital transactions and the underlying cash flows for the Group remain strong.

	2004/5 £m	2003/4 £m
Cash Flow from	100	100
Operating Activities	188	182
Other ordinary course items	(92)	(82)
Routine Capital Expenditure	(71)	(71)
Underlying cash inflow	25	29
Capital Expenditure on new sites	(52)	(37)
Acquisitions/Disposals	(548)	44
Net Cash (outflow)/inflow before use of liquid resources	(FZF)	26
and financing	(575)	36

Dividends from Joint Ventures and Associates amounted to £4.3m. This compares with Profit after tax in the period from these companies of £13.7m.

Our forecast for capital expenditure for the full year (excluding Premier) is about £250m compared with an actual figure for 2003/4 of £230m.

As reported in the press, we are currently looking to sell our Courtyard Hotels. These have an asset value of about £50m. We hope to announce the sale shortly.

Financing

Net debt at the end of the half year amounted to £1,361m an increase of £568m over the period as a result of Premier. The period end balance sheet gearing ratio was 63%.

Net asset value

Net asset value per share increased from £6.96 to £7.28

Finance review

Pensions

In view of the extension granted by the Accounting Standards Board to the transitional arrangements for FRS17 ("Retirement Benefits"), we have continued to account for pensions in accordance with SSAP 24.

At the end of our 2003/4 financial year there was a Pension Fund deficit of £366m on FRS17 basis. The net deficit after tax was £256m. Since the year end the value of Fund assets has risen but not as fast as the value of the liabilities. The estimated deficits at the half year end were £376m and £263m after tax. It should be noted that FRS17 calculations are very susceptible to short term movements in equity values and interest rates.

Impact of business review

The conclusions of the Business Review are set out in a separate letter to shareholders from the Chief Executive. The sale of Courtyard Hotels is expected prior to the year end but no other significant accounting consequences from the matters set out in the letter are expected in the balance of the current year.

International financial reporting standards (IFRS)

Whitbread will be required to adopt IFRS when preparing its group accounts for 2005/6. In preparation for this, all existing IFRS have been reviewed in detail so as to assess their likely impact on our reported figures and the actions required to collect the necessary data.

We intend to publish these adjustments with supporting narrative, before we present our first IFRS figures at 2005/6 interims. We have started to collect data on a dual basis (UK GAAP and IFRS).

Adoption of IFRS, with its focus on the balance sheet and the incorporation of fair value accounting, will both change the net asset position and increase the volatility of reported profits. The main impacts on Whitbread will be:

- the requirement to account for the surplus or deficit on our pension fund in our balance sheet;
- the requirement to incorporate the market values of financial derivatives into our balance sheet;
- Our opening IFRS balance sheet will also be impacted by the requirement to account for deferred tax on gains on sales of property rolled over into new assets and on previously reported gains on the revaluation of properties;
- Accounting for the fair value of acquisitions under IFRS is likely to give rise to different values than under UK GAAP.

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David Richardson Finance director

27 October 2004

Group profit and loss account – six months to 2 September 2004

			6 months to 2 September 2	o 004	6 moi 30 Aug	nths to ust 2003	Year to 4 March 2004
	Notes	Before exceptional items £m	Exceptional items (note 3) £m	Total £m	Before exceptional items £m	After exceptional items £m	After exceptional items £m
Turnover, continuing operations Ongoing businesses Acquisitions		1,011.7 15.4		1,011.7 15.4	981.6 -	981.6 -	1,977.4 –
Group and share of joint ventures Less share of joint ventures' turnover		1,027.1 (88.7)		1,027.1 (88.7)	981.6 (83.7)	981.6 (83.7)	1,977.4 (189.2)
Group turnover	2	938.4		938.4	897.9	897.9	1,788.2
Ongoing businesses Acquisitions		147.6 4.5		147.6 4.5	138.1	138.1	236.5
Group operating profit, continuing operations Share of operating profit in:		152.1	_	152.1	138.1	138.1	236.5
Joint ventures Associates		7.4 13.6	_	7.4 13.6	7.1 15.8	7.1 15.8	18.6 22.4
Operating profit of the group, joint ventures and associates	2	173.1	_	173.1	161.0	161.0	277.5
Non-operating items Net loss on disposal of fixed assets	3	_	(0.3)	(0.3)	_	(8.9)	(10.3)
Profit before interest		173.1	(0.3)	172.8	161.0	152.1	267.2
Ongoing businesses Acquisitions		(22.6) (3.1)	_	(22.6) (3.1)	` '	(29.6)	(55.5)
Interest	4	(25.7)	_	(25.7)	(26.3)	(29.6)	(55.5)
Profit before tax Tax	5	147.4 (46.7)	(0.3)	147.1 (46.7)	134.7 (44.4)	122.5 (20.9)	211.7 (46.9)
Profit after tax Equity minority interests Non-equity minority interests		100.7 (0.1) (0.1)	(0.3) - -	100.4 (0.1) (0.1)	90.3 (0.1) (0.1)	101.6 (0.1) (0.1)	164.8 (0.1) (0.2)
Profit earned for ordinary shareholders Ordinary dividends		100.5 (20.4)	(0.3)	100.2 (20.4)	90.1 (17.7)	101.4 (17.7)	164.5 (65.5)
Retained profit for the period		80.1	(0.3)	79.8	72.4	83.7	99.0
Dividends per share (pence)							
Interim Final				6.90		6.15	6.15 16.15
Earnings per share (pence) Basic	6			33.79		34.40	55.74
Adjusted basic Diluted		35.31		33.56	31.99	34.40	58.22 55.39
Adjusted diluted		35.06		33.36	31.82	54.21	55.39

Statement of total recognised gains and losses – six months to 2 September 2004

	6 months to 2 September 2004 £m	6 months to 30 August 2003 £m	Year to 4 March 2004 £m
Profit earned for ordinary shareholders			
Group excluding joint ventures and associates	90.8	85.1	137.1
Joint ventures	4.3	5.2	12.1
Associates	5.1	11.1	15.3
Group including joint ventures and associates	100.2	101.4	164.5
Currency translation differences on net foreign investment	0.8	0.2	(0.7)
	101.0	101.6	163.8
Prior year adjustment arising from the adoption of UITF abstracts 17 (as amended) and 38	_	_	(6.7)
,		1016	
Total gains and losses recognised since previous year end	101.0	101.6	157.1

Group cash flow statement – six months to 2 September 2004

			nonths to tember 2004		onths to gust 2003		ear to Irch 2004
	Notes	£m	£m	£m	£m	£m	£m
Cash inflow from operating activities	9		188.1		181.5		382.9
Dividends received from joint ventures							
and associates Joint ventures							9.5
Associates			4.3		4.1		11.9
Returns on investments and servicing of finance							
Interest received		0.8		1.8		1.5	
Interest paid		(23.7)	.=	(28.2)		(57.3)	
Net cash outflow from returns on investments and servicing of finance			(22.9)		(26.4)		(55.8)
•			` '		,		
Tax			(19.9)		(15.0)		(28.0)
Capital expenditure and financial investment		(122.0)		(1077)		(200.0)	
Property and plant purchased Investments purchased and loans advanced		(122.9) (8.5)		(107.7) (2.4)		(209.0) (5.3)	
Property and plant sold		2.7		44.2		112.3	
Net cash outflow from capital expenditure							
and financial investment			(128.7)		(65.9)		(102.0)
Acquisitions and disposals							
Businesses acquired	10	(548.3)				(20.6)	
Net cash outflow from acquisitions and disposals			(548.3)				(20.6)
and disposais			(346.3)		_		(20.0)
Equity dividends paid			(47.6)		(42.1)		(60.4)
Net cash inflow/(outflow) before use of liquid resources and financing			(EZE 0)		36.2		137.5
•			(575.0)		30.2		157.5
Management of liquid resources							
Net movement on short term securities and bank deposits	11		0.4		4.2		5.3
Financing							
Minority dividends		(0.1)		(0.1)		(0.2)	
Issue of shares		5.3		3.0		6.9	
Net movement on short term bank borrowings	11	3.1		(3.7)		7.7	
Loan capital issued Loan capital repaid	11 11	615.8 (24.2)		55.0 (88.5)		22.7 (174.0)	
Net cash inflow/(outflow) from financing			- 599.9	(55.5)	(34.3)	(17)	(136.9)
Increase in cash	11		25.3		6.1		5.9
micreuse in Cusii	11	_	25.5		0.1		۳.5

Group balance sheet – 2 September 2004

	Notes	2 September 2004 £m	30 August 2003 (restated) £m	4 March 2004 £m
Fixed assets				
Intangible assets		148.4	137.3	147.6
Tangible assets		3,592.3	2,991.6	2,989.7
Investments				
In joint ventures		00.2	05.0	00.1
Share of joint ventures' gross assets Share of joint ventures' gross liabilities		88.2 (41.0)	85.0 (39.4)	90.1 (47.2)
Loans to joint ventures		1.8	(59.4)	1.8
Louris to joint ventures				
la accordata		49.0		44.7
In associates		70.4		65.3
Other investments		6.3	2.6	3.7
		3,866.4	3,242.8	3,251.0
Current assets and liabilities				
Stocks		23.8	23.9	24.4
Debtors – amounts falling due within one year	7	138.1	150.6	105.2
Debtors – amounts falling due after more than one year	7	56.9	45.3	56.5
Cash at bank and in hand		91.4	56.2	68.8
		310.2	276.0	25/19
Creditors – amounts falling due within one year	8	(1,154.5)		
,	· ·			
Net current liabilities		(844.3)	(56.8)	(165.3)
Total assets less current liabilities		3,022.1	3,186.0	3,085.7
Creditors – amounts falling due after more than one year Loan capital		(659.6)	(930.8)	(807.5)
toun cupitui		(039.0)	(330.8)	(807.5)
Provisions for liabilities and charges		(185.1)	(184.3)	(179.8)
		2,177.4	2,070.9	2,098.4
Capital and reserves				
Called up share capital		149.2	148.3	148.7
Share premium account		18.3	10.0	13.5
Revaluation reserve		123.0	118.0	
Other non-distributable reserves			(1,813.0)	,
Profit and loss account		3,693.7	3,600.8	3,621.1
Shareholders' funds	13	2,171.6	2,064.1	2,091.6
Equity minority interests		2.7	3.7	3.7
Non-equity minority interests		3.1	3.1	3.1
		2,177.4	2,070.9	2,098.4
			,	,

Operating

1 Basis of preparation of accounts

The interim accounts were approved by the board on 27 October 2004. They have been prepared on the basis of the accounting policies set out in the 2003/4 group accounts. The tax charge on profit before exceptional items for the interim period has been calculated by applying the forecast effective tax rate for the current year.

The balance sheet as at 4 March 2004 and the profit and loss account and cash flow statement for the year ended on that date are extracts from the statutory accounts which have been delivered to the Registrar of Companies. The auditors' report on the statutory accounts was unqualified and did not contain a statement under section 237 of the Companies Act 1985.

2 Segmental analysis of turnover, profit and net assets

			Operating	
6 months to 2 September 2004	Turnover £m	EBITDA §	profit #	Net assets £m
By business segment Marriott brands	195.7	53.6	32.7	1,154.5
Premier Travel Inn	141.7	61.8	49.1	1,095.9
Total hotels	337.4	115.4	81.8	2,250.4
lotal flotels	337.4	115.4	01.0	2,230.4
Pub Restaurants	305.5	63.0	48.5	783.2
High Street Restaurants	221.3	18.9	12.2	129.2
Total restaurants	526.8	81.9	60.7	912.4
David Lloyd Leisure	108.9	36.8	26.0	531.8
Developing businesses	_	(0.5)	(0.5)	-
Total sports, health and fitness	108.9	36.3	25.5	531.8
	973.1	233.6	168.0	3,694.6
Soft Drinks		12.8	12.8	60.2
Inter-segment turnover (see note below)	(1.3)			
Central Costs	55.3	(5.6)	(7.7)	(216.1)
Group including joint ventures and associates	1,027.1	240.8	173.1	3,538.7
Share of joint ventures	(88.7)	(7.4)	(7.4)	(49.0)
Share of associates	(00.7)	(13.6)	(13.6)	(70.4)
Group excluding joint ventures and associates	938.4	219.8	152.1	3,419.3
Group excluding John Ventures and associates		217.0	1,72.1	
By geographical segment				
United Kingdom	986.5	237.5	172.1	3,452.2
Rest of the world	40.6	3.3	1.0	86.5
	1,027.1	240.8	173.1	3,538.7
	•			

2 Segmental	analysis of	turnover.	profit and r	net assets (continued)	

6 months to 30 August 2003	Turnover £m	EBITDA § £m	profit # £m	Net assets £m
By business segment Marriott brands Travel Inn	194.0 114.1	54.4 47.8	32.2 38.3	1,225.1 543.4
Total hotels	308.1	102.2	70.5	1,768.5
Pub Restaurants High Street Restaurants	307.4 207.5	65.5 15.6	53.4 8.0	753.5 118.0
Total restaurants	514.9	81.1	61.4	871.5
David Lloyd Leisure Developing businesses	99.6 -	33.7 (0.4)	23.4 (0.4)	496.0 (0.1)
Total sports, health and fitness	99.6	33.3	23.0	495.9
	922.6	216.6	154.9	3,135.9
Beer and Other Drinks Inter-segment turnover (see note below)	10.1 (1.2)	15.6	15.6	55.8
Central Costs	50.1	(8.9)	(9.5)	(213.1)
Group including joint ventures and associates	981.6	223.3	161.0	2,978.6
Share of joint ventures Share of associates	(83.7)	(7.1) (15.8)	(7.1) (15.8)	(47.4) (63.9)
Group excluding joint ventures and associates	897.9	200.4	138.1	2,867.3
By geographical segment				
United Kingdom	945.5	220.9	160.5	2,932.8
Rest of the world	36.1	2.4	0.5	45.8
	981.6	223.3	161.0	2,978.6

Operatina

# Operating profit is stated after charging the amortisation of goodwin as follows.	6 months to 2 September 2004 £m	
Hotels – Marriott brands	4.0	4.0
Sports, health and fitness – David Lloyd Leisure	0.2	0.2

Following the sale of the Whitbread Beer Company there remained a continuing activity within the Beer segment. This ceased on 15 April 2003.

[§] EBITDA is earnings before exceptional items, interest, tax, depreciation and amortisation. # Operating profit is stated after charging the amortisation of goodwill as follows:

88.7

83.7

2 Segmental analysis of turnover, profit and net assets (continued)

Segmental turnover includes the group's share of joint venture turnover as follows:	6 months to 2 September 2004 £m	
Hotels — Premier Travel Inn	2.0	1.8
High Street Restaurants	86.7	81.9

Inter-segment turnover was from High Street Restaurants to the other segments. Central Costs turnover comprises, primarily, food distribution services provided to a joint venture. The geographical analysis of turnover and profit is by source. The analysis of turnover by destination was not materially different. Sales between geographical segments are not material.

Net assets included above are total net assets excluding net debt.

3 Exceptional items

3 Exceptional terms	6 months to 2 September 2004 £m	6 months to 30 August 2003 £m	Year to 4 March 2004 £m
Operating items Impairment of property Impairment of goodwill	_ _ _	- -	(4.4) (11.1)
Charged against operating profit	-	-	(15.5)
Non-operating items Net profit/(loss) on disposal of fixed assets Group excluding joint ventures and associates Joint ventures Associates	(0.4) 0.1 - (0.3)	0.8 0.1	(10.8) 0.4 0.1 (10.3)
Exceptional financing costs (note 4)	-	(3.3)	(3.3)
Exceptional tax (note 5) Deferred tax on exceptional items (note 5)	_	23.5	26.5 3.7
	(0.3)	11.3	1.1

4 Interest

	6 months to	6 months to	Year to
	2 September	30 August	4 March
	2004	2003	2004
	£m	£m	£m
Interest payable	25.9	. ,	53.1
Interest receivable	(0.9)		(1.4)
Interest capitalised	(0.8)		(2.2)
Interest payable by: Joint ventures	24.2	24.8	49.5 0.5
Associates	0.4	0.5	0.6
	24.8	25.5	50.6
Interest from unwinding discounts on provisions Exceptional financing costs	0.9	0.8 3.3	1.6 3.3
	25.7	29.6	55.5

3101	6 months to 2 September 2004 £m	6 months to 30 August 2003 £m	Year to 4 March 2004 £m
Current tax on profits for the period before exceptional items			
UK Corporation Tax Adjustments to UK Corporation Tax for earlier periods	36.2 (2.3)	31.0 0.3	56.1 (1.0)
	33.9	31.3	55.1
Overseas tax Adjustments to overseas tax for earlier periods	0.2	0.2 (0.6)	0.4
Joint ventures Associates	2.7 3.7	2.2 4.3	5.7 5.6
Exceptional current UK tax adjustment	-	(23.5)	(26.5)
Total current tax	40.5	13.9	40.3
Deferred tax on profit before exceptional items			
Timing differences – Group – Joint ventures	5.9 0.3	6.7 0.3	8.6 0.7
– Joint Ventures – Associates	0.5	-	1.0
Deferred tax on exceptional items – Group	-	-	(3.7)
Total deferred tax	6.2	7.0	6.6
Total tax charge	46.7	20.9	46.9

6 Earnings per share

Basic earnings per share is calculated by dividing earnings for ordinary shareholders of £100.2m (2003 – £101.4m) by the weighted average number of ordinary shares in issue during the period, 296.5m (2003 – 294.8m). Adjusted basic earnings per share is calculated as follows:

	Earnings (£m) Earnings			arnings per sh	per share (p)	
	6 months to 2 September 2004	6 months to 30 August 2003		6 months to 2 September 2004		Year to 4 March 2004
Earnings and basic earnings per share Earnings and basic earnings per share attributable to:	100.2	101.4	164.5	33.79	34.40	55.74
Goodwill amortisation Exceptional items, net of tax	4.2 0.3	4.2 (11.3)	8.4 (1.1)	1.42 0.10	1.42 (3.83)	2.85 (0.37)
Adjusted earnings and basic earnings per share	104.7	94.3	171.8	35.31	31.99	58.22

Earnings includes a number of exceptional items (note 3). In order to demonstrate the effect of these, together with the impact of goodwill amortisation, an adjusted earnings per share figure is also presented. 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 calculation is 298.6m (2003 - 296.4m).

50.2

20.5

1,154.5

40.9

18.1

332.8

44.7

47.8

420.2

7 Debtors

	2 September 2004 £m	30 August 2003 £m	4 March 2004 £m
Amounts falling due within one year			
Trade and other debtors and prepayments	119.4	138.8	95.2
Joint ventures	14.3	7.5	8.5
Associates	4.4	4.3	1.5
	138.1	150.6	105.2
Amounts falling due after more than one year			
Deferred consideration for property disposals	_	_	4.8
Pension prepayment under SSAP 24	56.9	45.3	51.7
	56.9	45.3	56.5
8 Creditors – amounts falling due within one year			
	2 September	30 August	4 March
	2004 £m	2003 £m	2004 £m
Loan capital	745.2	5.0	5.8
Bank overdrafts	47.9	21.4	48.1
Trade and other creditors and accruals	252.1	231.8	248.8
Associates	_	-	0.8
Corporation Tax	38.6	15.6	24.2

9 Net cash inflow from operating activities

Other taxes and social security Proposed dividend on ordinary shares

	6 months to 2 September 2004 £m	6 months to 30 August 2003 £m	Year to 4 March 2004 £m
Group operating profit	152.1	138.1	236.5
Depreciation/amortisation	67.7	62.3	127.9
Impairment of property and goodwill	_	-	15.5
Payments against provisions	(0.5)	(1.3)	(2.4)
Other non-cash items	(0.5)	_	5.9
(Increase)/decrease in stocks	1.0	-	(0.5)
Increase in debtors	(20.2)	(18.0)	(21.9)
Increase/(decrease) in creditors	(11.5)	0.4	21.9
Cash flow from operating activities	188.1	181.5	382.9

10 Acquisitions

On 25 July 2004 the group acquired the trade and assets of the Premier Lodge business for a provisional cost of £553m. The estimated fair value of the net assets acquired amounts to £553m and, therefore, no goodwill arises on the transaction under UK GAAP.

11 Reconciliation of net cash flow to movement in r	net debt
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	6 months to 6	6 months to	Year to
	2 September	30 August	4 March
	2004	2003	2004
	£m	£m	£m
Increase in cash in the period	25.3	6.1	5.9
Cash (inflow)/outflow from movement in loan capital	(591.6)	33.5	151.3
Cash inflow from movement in liquid resources	(0.4)	(4.2)	(5.3)
Cash (inflow)/outflow from movement in short-term borrowings	(3.1)	3.7	(7.7)
Changes in net debt resulting from cash flows	(569.8)	39.1	144.2
Foreign exchange movements	(0.3)	(0.9)	1.2
Amortisation of premiums and discounts	1.4	1.4	2.6
Movement in net debt in the period	(568.7)	39.6	148.0
Opening net debt	(792.6)	(940.6)	(940.6)
Closing net debt	(1,361.3)	(901.0)	(792.6)

12 Balance sheet movements in cash and net debt

	4 March 2004 £m	Cash flow £m	Foreign exchange £m	of premiums and discounts £m	2 September 2004 £m
Cash at bank and in hand Overdrafts (note 8)	68.8 (48.1)				91.4 (47.9)
	20.7	21.8	1.0	_	43.5
Less short-term securities, bank deposits and borrowings	28.0	3.5	-	-	31.5
Cash	48.7	25.3	1.0	_	75.0
Short-term securities and bank deposits	0.4	(0.4)	_	_	_
Short-term bank borrowings	(28.4)	(3.1)	-	-	(31.5)
Loan capital under one year (note 8)	(5.8)				(745.2)
Loan capital over one year	(807.5)				(659.6)
Total loan capital	(813.3)	(591.6)	(1.3	1.4	(1,404.8)
Net debt	(792.6)	(569.8)	(0.3	1.4	(1,361.3)

13 Shareholders' funds

	6 months to 2 September 2004 £m	6 months to 30 August 2003 (restated) £m	Year to 4 March 2004 £m
Movements in shareholders' funds Opening equity shareholders' funds Prior year adjustment for UITF abstracts 17 (as amended) and 38	2,091.6 –	1,983.9 (6.7)	1,983.9 (6.7)
Opening equity shareholders' funds – restated	2,091.6	1,977.2	1,977.2
Profit earned for ordinary shareholders Dividends	100.2 (20.4)	101.4 (17.7)	164.5 (65.5)
Other recognised gains and losses relating to the period UITF17 charge for share based payments Shares purchased for share schemes Movement on associates' reserves Share capital issued	79.8 0.8 - (5.9) - 5.3	83.7 0.2 - - - 3.0	99.0 (0.7) 5.9 - 3.3 6.9
Closing equity shareholders' funds	2,171.6	2,064.1	2,091.6

Introduction

We have been instructed by the company to review the financial information for the six months ended 2 September 2004 which comprises the Group profit and loss account, Statement of total recognised gains and losses, Cash flow statement, Balance sheet and the related notes 1 to 13. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with auidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 2 September 2004.

Ernst & Young LLP

London 27 October 2004

Shareholder services

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

Registrar

The company's registrar is Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH. The website address is www.computershare.com. For enquiries regarding your shareholding please telephone 0870 703 0103, or e-mail web.queries@computershare.co.uk. You can also view up-to-date information about your holdings by visiting www.mywhitbreadshares.com. Please ensure that you advise Computershare promptly of any change of address.

Electronic shareholder communications

Shareholders wishing to receive the Annual Report and Accounts and/or the Interim Report in electronic rather than paper form should register their instruction at www.mywhitbreadshares.com in the electronic communications section.

Dividend reinvestment plan

Full details of the plan, which offers you the chance to reinvest your cash dividend in the purchase of additional company shares, are available from the registrars at the address given above or on www.whitbread.co.uk in the shareholder services section.

Dividend payment by BACS

We can pay your dividends direct to your bank or building society account using the Bankers' Automated Clearing Service (BACS). This means that your dividend will be in your account on the same day we make the payment. Your tax voucher will be posted to your home address. If you would like to use this method of payment please ring the registrars on 0870 703 0103.

Shareholder benefits

Details of discounts and offers by Whitbread businesses have been mailed with this report. Any future offers will be subject to review by the board. It is intended that next year they will only be sent to those shareholders with at least 100 shares in the company.

Sharegift

If you have a small number of Whitbread PLC shares, with a value that makes it uneconomical to sell them, you may donate the shares to charity through the Sharegift scheme operated by the Orr Mackintosh Foundation. Further information on Sharegift can be obtained from their website (www.shareqift.org) or by calling 020 7337 0501.

Capital gains tax

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

'A' limited voting shares of 25p each 103.75p

'B' limited shares of 25p each 103.75p

Whitbread has had discussions with the Inland Revenue concerning the capital gains tax cost of Whitbread shares following the reduction of capital on 10 May 2001. It is confirmed that the market value of each Whitbread share on 10 May 2001 for these purposes was 606.5p and the market value of each Fairbar share was 230p.

Unsolicited mail

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

If you are a resident in the UK and wish to stop receiving unsolicited mail then you should register with the Mailing Preference Service, telephone: 020 7291 3310 or you may prefer to write to:

The Mailing Preference Service Freepost 22, London, W1E 7EZ

Individual Savings Account (ISA)

NatWest provide a company sponsored ISA. For further information or to receive a copy of the ISA brochure please ring 020 7895 5600. Calls are charged at national rates.

Company Secretary and Registered Office

Simon Barratt

Whitbread PLC, CityPoint, One Ropemaker Street, London, FC2Y 9HX

Shareholder enquiries: 0870 703 0103

Financial diary – 2004/5 (dates subject to confirmation)

28 October 2004 Announcement of half year results
3 November Ex dividend date for interim dividend
5 November Record date for interim dividend

4 January 2005 Payment of interim dividend
3 March End of financial year
26 April Results announcement

4 May Ex dividend date for final dividend 6 May Record date for final dividend

14 June AGM at Queen Elizabeth II Conference Centre

8 July Payment of final dividend

1 September Half year end

Share dealing services

Share dealing services					
Organisation	Telephone	Address	Online		
Barclays Stockbrokers	0845 702 3021	Barclays Stockbrokers, Tay House, 300 Bath Street, Glasgow, G2 4LH	www.stockbrokers.barclays.co.uk		
Computershare Investor Service	0870 703 0084 s	Computershare Investor Services, PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH	www.computershare.co.uk		
NatWest Stockbrokers	0870 600 2050	NatWest Stockbrokers, PO Box 549, Leeds, LS1 4WN	www.natweststockbrokers.co.uk		
Stocktrade	0845 840 1533 (quote ref: Low Co0101)	Stocktrade, PO Box 1076, 10 George Street, Edinburgh, EH2 2PZ	www.stocktrade.co.uk/whitbread/ index.html		

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

Whitbread PLC













COSTA



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www.whitbread.co.uk

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