

Whitbread
CityPoint
One Ropemaker Street
London
EC2Y 9HX

www.whitbread.co.uk

Customers and Whitbread.
Eating, sleeping, drinking,
working out... enjoying.

Designed and produced by Bamber Forsyth Limited. Photography by Richard Baker, Simon Jarratt, Davy Jones, David Loftus, Zed Nelson, Bill Robinson, Sven Seiffert and Arnhel de Serra. Printed in England by Litho-Tech Colour Printers Ltd. This review is printed on paper manufactured from 100% Totally Chlorine Free (TCF) woodpulp, from sustainable plantation forests, using thinnings and waste from the timber industry. It contains no pulp from rainforest sources and is totally recyclable and biodegradable.



Whitbread
Stakeholder Review
2000/1

Shareholders page 03

Customers page 09

Employees page 15

Society page 21

Turnover



Profit



£1,709m +17%

future Whitbread sales

£354m +23%

future Whitbread EBITDA* before exceptional items

£241m +22%

future Whitbread operating profit before exceptional items

*Earnings before interest, tax, depreciation and amortisation

Ian Sharrock

Future Whitbread has made a flying start with strong sales and profit growth and an improvement in overall margin.

The last year has seen a transformation of Whitbread as we have sold slow growth businesses to concentrate our firepower on more dynamic markets. In lodging, eating-out and active leisure we have strong brands, leading market positions and exciting prospects.

Last year we set our brands the challenging target of a 5% annual like-for-like sales growth. I am pleased to report that Marriott, Travel Inn, Costa and David Lloyd Leisure exceeded this target with Brewers Fayre and Pizza Hut close to it.

In Hotels, Marriott's yield premium to the market increased to 17%. The first 10 Swallow Hotels have successfully converted to Marriott and total Marriott rooms have grown to 8,688. The conversion programme is on schedule with seven hotels becoming Marriotts in Spring 2001 and most of the remaining hotels following in the current financial year.

The Travel Inn brand goes from strength to strength with a total of 29 new hotels coming on line during the year. It is now the country's largest budget hotel chain with 262 hotels and 14,186 rooms at the end of the year. In January, Travel Inn became the first UK hotel brand to offer a 100% guarantee of satisfaction to its customers.

The major opportunities within our Restaurants Division are to grow Brewers Fayre to its optimum size and to achieve the full potential of the Beefeater estate which consists of 257 of the country's best large restaurant sites.

future Whitbread has made a flying start with strong sales and earnings growth... The last year has seen a transformation of Whitbread as we have sold slow growth businesses to concentrate our firepower on more dynamic markets.

The first new restaurant concept to be introduced to this estate, Out & Out, has started well and will be established in at least 40 sites by the end of the current year.

After a slow start to the year, David Lloyd Leisure's membership sales grew dramatically in the second half and for the year as a whole were 23% ahead. The brand's leadership position was confirmed by an NOP survey which put public awareness of David Lloyd Leisure at three times the rating of the nearest competitor.

On 19 October 2000 the board announced its intention to realise the value in the Pubs & Bars division and to return 75% of the net proceeds to shareholders. An agreement was reached with Morgan Grenfell Private Equity on 20 March 2001 which values Pubs & Bars at £1,625 million – some 40% ahead of book value. The return of value to shareholders, amounting to £2.30 per share, is expected to take place in early June.

Current trading and prospects

The new financial year has started well with all future Whitbread divisions in like-for-like sales growth for the first five weeks and on track to achieve the same for the rest of April. Marriott has been affected by a fall in the number of US visitors to London but management action has already been taken to mitigate the impact. For the year as a whole, food input prices are expected to remain below inflation as a result of buying efficiencies. A further trading update will be given at the time of the AGM in June.

Whitbread's people

Whitbread has always prided itself on being a people business. The major corporate transactions undertaken

during the year and the growth in sales and profits for future Whitbread would not have been achieved without the commitment and professionalism of everyone involved.

This has been a year of momentous change. On behalf of our shareholders I should like to thank all of our people for their hard work and dedication that made the progress of last year possible.

Dividends

A final dividend of 23.10 pence per existing share is proposed which will make a total dividend for the year of 31.15 pence. This will be paid on 13 July 2001 to shareholders on the register at the close of business on 18 May 2001. As this is after the date of the proposed share capital consolidation, the dividend actually paid will be 38.50 pence per share on the lower number of consolidated shares.

The total cash dividend in future will reduce as a result of the lower number of shares in issue and because the board intends to adopt a dividend policy that will initially be based on an overall dividend cover of approximately 2.5 times compared with a current cover of 1.7 times. Such a policy will be implemented for the first time in respect of the interim dividend for the financial year to 2 March 2002.

Sir John Banham

Sir John Banham
Chairman

1 May 2001

Fed's rate cut stuns markets



What are the prospects for future Whitbread? Answers to shareholders' questions.

Making your cash work harder

Some 70,000 people own shares in Whitbread direct and tens of thousands more have a stake in the company through their pension, unit trust and other savings. It is their money that fuels the company's growth.

The prime responsibility of Whitbread's board, its management and people is to make our shareholders' cash work harder and to earn increasing returns on their investment.

During the last 18 months big changes have been made to the size and shape of Whitbread so that the business can deliver its obligations to its shareholders more effectively.

Shareholders have supported these strategic moves at two general meetings and many have asked questions in person or by letter and e-mail. So that all shareholders have the chance to understand the rationale behind the changes, David Thomas, Chief Executive, gives his own answers to some of the most frequently asked questions.

By focusing mana
and future invest
achieve higher ea
and improved ret
shareholders.

gement effort
ment we can
arnings growth
urns for our

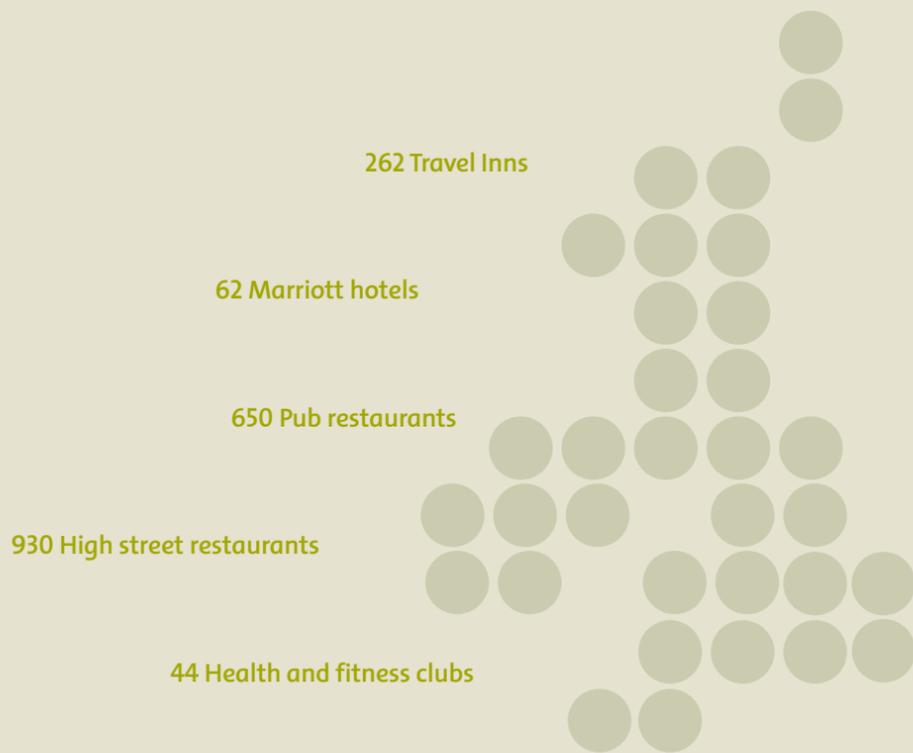


A Swiss ball class at David Lloyd Leisure.



See pages 26 and 27 for full biographies.

The prime responsibility of Whitbread's board, its management and people is to make our shareholders' cash work harder and to earn increasing returns on their investment.



Why have you sold more than half the company?
 So that we can concentrate on three markets where there is significant potential for future growth.

UK hotel market
 (£bn at current prices)
 Turnover and forecast at current prices 1997-2002



Source: Catering and Allied Trades Inquiry, Mintel

UK eating-out market forecasts
 (£bn at current prices)



Source: Taylor Nelson/ONS data adjusted by Whitbread to include foreign tourist expenditure

Growth of the leisure market
 (£bn at current prices)



Source: Office of National Statistics/Whitbread Estimates

We've set our brands the target of 5% like-for-like sales growth each year.

+5%



Customers' comments encouraged at the Marriott.

Do you only have financial targets? We won't achieve our financial targets unless we get a number of other things right as well.

Why have you sold half the company?

So that we can concentrate on three markets – lodging, eating-out and active leisure – where there is significant potential for future growth and where we already have strong brands and leading positions. It is a question of priorities and we are convinced that by focusing management effort and future investment in these markets we can achieve higher earnings growth and improved returns for our shareholders.

Why didn't you change the company's name?

Nine times out of ten company name changes are cosmetic exercises that cost a lot of money and disguise (temporarily) lack of real changes in strategy and culture. We have made genuine changes of substance at Whitbread and transformed the company. **I'm proud of what we've achieved to-date and of the name Whitbread and the values it stands for.** I'm also looking forward to further enhancing our reputation by delivering the results those changes make possible in the years ahead.

So how fast will Whitbread grow?

Significantly, as you would expect from a leisure company with leading brands operating in growth markets. We've set our brands the target of 5% like-for-like sales growth each year. That's stretching but within their grasp.

Does this mean Whitbread will get back into the FTSE 100?

The task for me and my team is to deliver on our financial targets and go on doing so. If we achieve that the market will recognise our performance and future prospects and our share price and market capitalisation will benefit. Achieving FTSE 100 status is not an end in itself.

Do you only have financial targets?

Certainly not. We won't achieve our financial targets unless we get a number of other things right as well. We have to make our brands distinctive in the eyes of the consumer so we measure their awareness and favourability. Because we want to delight our customers we test what they think about our products and service in every hotel, restaurant and club we operate. And we want to attract the best people to work for us so we keep careful track of how our existing employees are feeling and what the perception of Whitbread is like amongst the public at large. **Setting ourselves targets to be first choice for our customers, our employees and our shareholders, asking these questions and acting on the answers gives us the opportunity to stay ahead of our competitors.**

Is this what you call a balanced scorecard?

Yes. Our overriding responsibility is to grow the returns on our shareholders' investment in Whitbread but we know that won't happen without satisfied customers, highly motivated people to serve them and without meeting our obligations to the environment and to society at large. So we set stretching targets and make sure we measure our performance in relation to all of them.

Don't gut feel and flair have a part to play?

For sure. We all know from our own experience that it's usually one individual who makes our visit to a hotel or restaurant something special. We have many thousands of talented people working for Whitbread. One of our big challenges as leaders is to enable them to use their own flair and instinct to look after their customers.

Was that the problem with Beefeater?

Yes. The way we served customers in Beefeater was right for the 80s and the early 90s but far too rigid for today. In Beefeater, and in one of its successors called Out & Out, we've changed the way we do things. Our people are now able to serve their guests in a more relaxed and friendly way. It's good for them, a much better experience for our customers and the results are proving good for our shareholders.

How can a big company compete with thousands of good, local restaurants?

Our brands can compete by providing our customers with a great experience giving them the consistency they expect, a high quality offering and good value. Having said that, I think there's room for both. **People are spending more on eating out and they now expect variety and choice.** The more that's provided the more the market will grow.

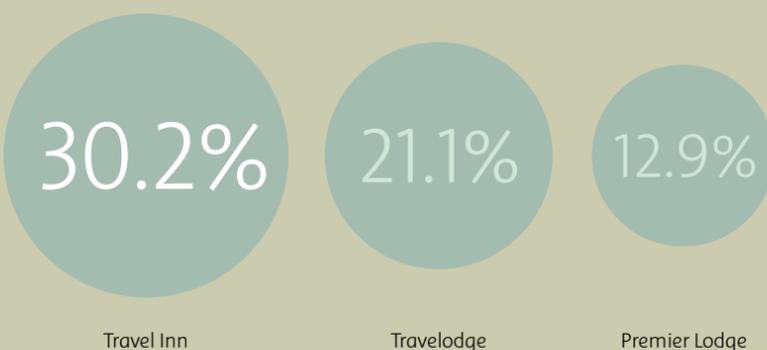
But don't you have too many restaurant brands?

Over 90% of our restaurant profit comes from the Brewers Fayre, Brewsters and Beefeater brands and their adjacent Travel Inns. That's where most of our management effort is spent. But the other, currently smaller, brands have their place too. Amongst them could well be the big national brand of the future. In October last year, however, our new restaurants management team announced the first results of their review of brands. A whole series of actions were put in place to test the potential of our current brand range. Later this year, they will make some decisions about which brands they want to concentrate on going forward.

Aren't coffee shops growing like crazy?

Yes. Opening a coffee shop costs very little so lots of people have done it. How many of them will be there in two or three years is another matter. In Costa we have one of the two genuinely national brands and we're continuing to grow it rapidly.

Branded budget hotel rooms 2000 Top 3 market share



Why didn't you invent your own brand in hotels?
 We did – in Travel Inn which is now the biggest branded budget hotel chain in the country.



Party fun at a Brewsters.

How competitive is the active leisure market?

Lots of people have entered this market since we led the way in 1995 but no-one approaches our scale. David Lloyd Leisure is the biggest business of its kind in Europe with some 230,000 members. We've grown the business from 14 clubs to 45 today and we're adding five or six a year. This gives us tremendous brand recognition – three times that of our nearest competitor and we're adding members faster than ever. **Total membership sales were up 23% last year. So while it is a competitive market we're well ahead and determined to stay there.**

Why didn't you invent your own brand in hotels?

We did – in Travel Inn which is now the biggest branded budget hotel chain in the country. There are 262 Travel Inns with over 14,000 rooms and we expect to exceed 20,000 rooms within the next three years. 4-star hotels are different. To win in this market you have to have a genuinely international brand and Marriott is one of the world's strongest. Marriott also have very high standards and have developed the world's best reservation and operating systems. When all this is coupled to the Whitbread Hotel Company's management expertise the result is **a 4-star hotel brand which business travellers voted their favourite last year.**

Wouldn't you like to expand Whitbread overseas?

As managing director of the former Restaurant and Leisure Division I took us out of a whole range of overseas markets – Australia, Canada, the US, France and Belgium to name but a few. There was nothing we were doing in these markets that set us apart from our local competitors. For the foreseeable future we can achieve our growth targets from UK markets alone. We have continuing overseas interests in Germany and through franchised Costa businesses in the Middle East. We will continue to explore overseas options but only if we are convinced they will produce attractive and sustainable returns.

Why did the share price drop so low?

It reached its low point in September last year after we had sold the Beer Company but before we could announce our plan for Pubs & Bars. It wasn't helped by a widely held view that pub businesses ought to be funded by private equity. Investors were uncertain about what was next for Whitbread and, not unreasonably, voted with their feet. The clear statement we were able to give on 'future' Whitbread strategy in October of last year has made a big difference.

Won't a smaller Whitbread be more vulnerable to takeover?

This is one area where size really doesn't matter. There are two main reasons a company is taken over. The first is that someone offers such a premium price that shareholders just have to accept it. The second is that someone convinces shareholders they can do a better job of running the business. There's nothing I can do about the first situation. As for the second, **my team and I are entirely focused on delivering results that out-perform the market.**

Why return 75% of the Pubs & Bars value to shareholders?

It's their money and we can achieve our ambitious growth targets without it. When we've delivered on those targets it would be perfectly possible to go back to our shareholders and seek more funding if a good, and sensibly priced, investment opportunity were to come along.

Why reduce the number of shares?

It will make it easier to compare the price of those shares before and after the recent transactions. Shareholders will each hold the same proportion of Whitbread stock as they did before.

What makes you get out of bed in the morning?

I'm lucky to work in a great company which brings much pleasure into people's lives. Commercially, for the last four years it's been about achieving sufficient growth in those businesses that are our future while sustaining the businesses that were our past and realising full value for them. It's been a tough balancing act but we've got there. **Now it's about driving the future Whitbread businesses forward and getting them to perform to their true potential.** I've got a great team to help me do it and I'm relishing the prospect.

Whitbread share price (p)



Every organisation listens to its customers. The secret is acting on what they tell you.



Ours was the cappuccino that kick-started their day. The pilates class that helped keep mind and body together. And the great family meal and good night's sleep that rounded it all off.

They relaxed with us and slept with us. They woke up with us and worked out with us. They lunched and snacked and took dinner with us. Above all, our customers enjoyed being with us through the year – and they took great delight in telling us so.

Our high levels of customer satisfaction are the direct result of listening to what people say – and responding to their needs on a continuing basis.

Throughout all our food operations, the trend is towards fresher presentation and greater innovation. At Out & Out restaurants, for example, we're responding to the demands of our customers for lighter, fresher food (and informal service) with a brand new menu including Thai green chicken curry, salmon fillet and penne with roasted vegetables.



— THE —
Family Welcome

Customers and W
Eating, sleeping, d
working out... enj



David Lloyd

Whitbread.
rinking,
oying.



67%

of the Brewers Fayre and Brewsters customers we asked enjoyed their visit so much that they intended to return in the near future.

Follow the bear – an improved family-friendly menu.

67% of the Brewers Fayre and Brewsters customers we asked enjoyed their visit so much that they intended to return in the near future. That's as much a tribute to the new items now figuring on the menu as it is to the fact that these are the only truly family-friendly pub restaurants in the country. For example, parents eating in a Brewsters can keep an eye on their children playing in the Fun Factory via a unique video link.

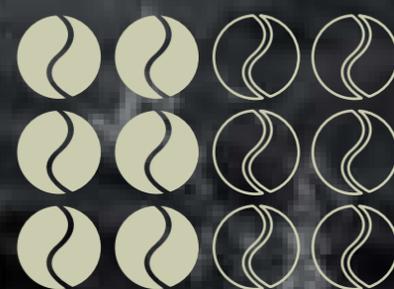
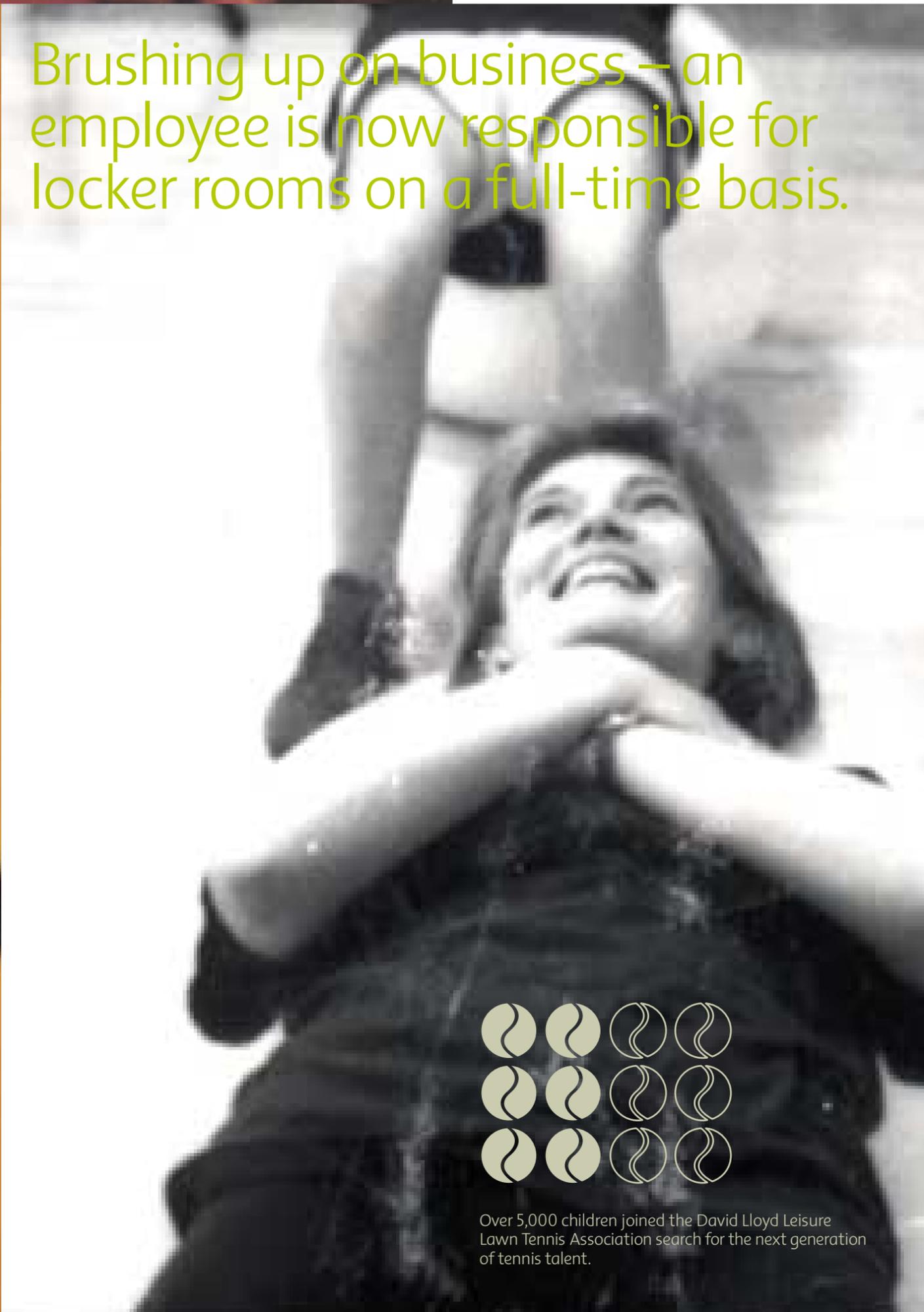
Boosting the bear 120 former Brewers Fayres are now branded as Brewsters, with 60 more to follow in 2001.

David Lloyd Leisure members told us that for all our investment in treadmills and bikes, it was the state of the locker rooms that caused most concern. In each club, an employee is now responsible for locker rooms on a full-time basis. No more missing keys, empty shampoo bottles or absent loo paper.

T.G.I. Friday's three new choices look more American than mom's apple pie. Yet they were all created in downtown Luton not Dallas, Texas.



Brushing up on business – an employee is now responsible for locker rooms on a full-time basis.



Over 5,000 children joined the David Lloyd Leisure Lawn Tennis Association search for the next generation of tennis talent.



Costa customers can now enjoy real Italian food such as pannini and bruschetta with their real Italian roast coffee. And they can enjoy them in more places too, including branches of Abbey National and Road Chef as well as on-board the Stansted Express and at the London Eye.



The best cup of coffee in town... now served with a sandwich!



At Travel Inn, our 100% satisfaction guarantee is winning the hearts and minds of the press as well as our customers. The News of the World called it 'the ultimate in guest satisfaction' while The Times dispatched a correspondent who reported back: 'Frustratingly, there is nothing to complain about... so I have to lie... that my room heater was faulty during the night and that I slept badly... The manageress offers me a refund. I confess and hand back the money'.

During the pilot phase, 73% of customers said the guarantee was an incentive to choose Travel Inn over competitors. Yet early figures show that such is the level of satisfaction, fewer than 0.5% actually invoke the guarantee. And in the Guest Satisfaction Survey that Marriott customers are asked to complete, our hotels scored a rating of 81%.

The experts' choice Whitbread hotels won both hotel brand performance awards in 2000. Marriott was chosen as 'British Business Travellers' Leading Choice Hotel Brand'. Travel Inn took the honours for 'Most Improved Hotel Brand'.

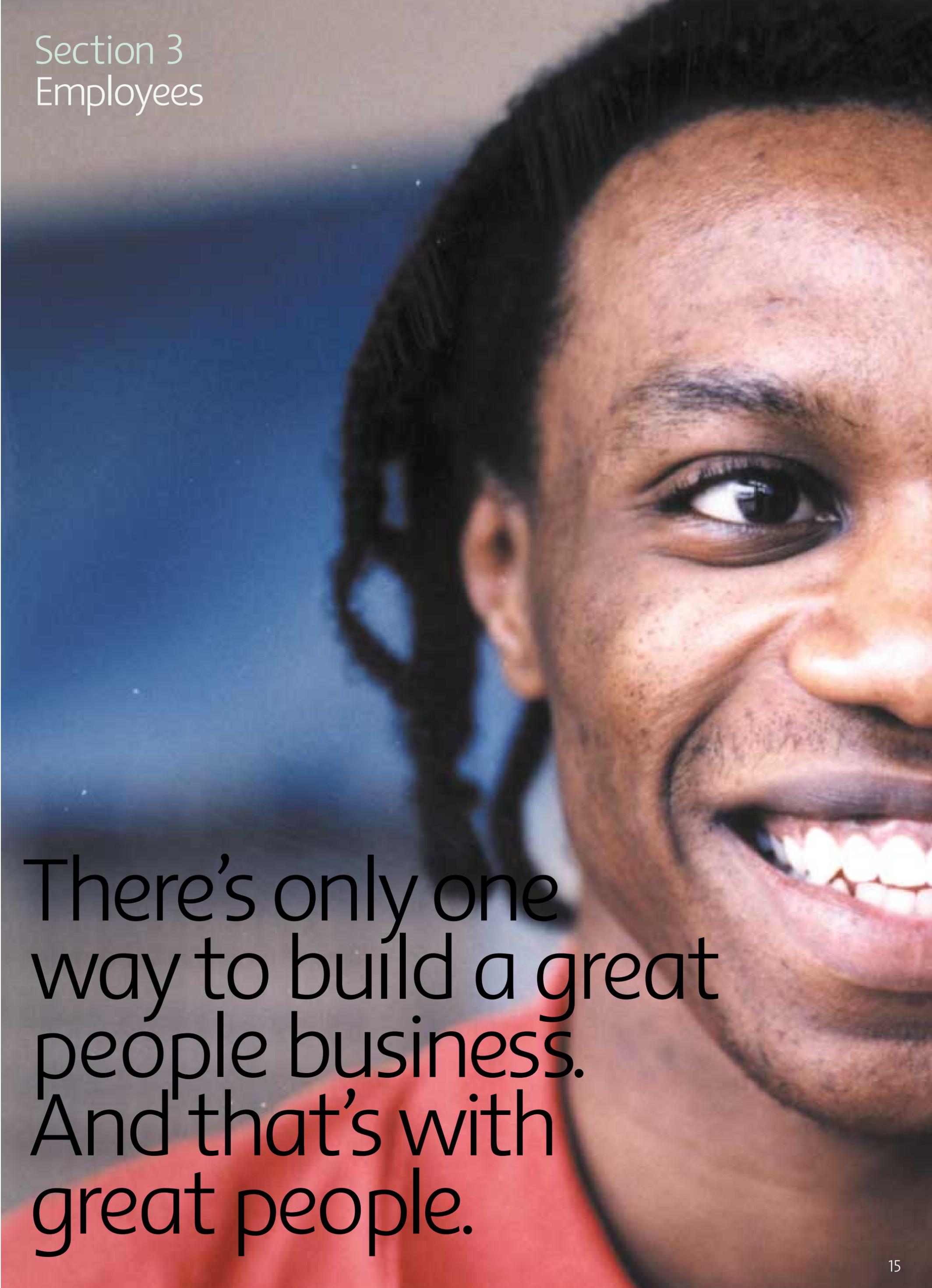
The customers' choice 'A truly excellent hotel from the staff through to the quality and cleanliness of the rooms.' Professor Cynthia McDougall from Yorkshire. 'Our every need was seen to in what was a very pleasant break.' Mr and Mrs Shaul of Essex.

Dream time. Whitbread time.
Marriott hotels win 'British
Business Travellers' Leading
Choice Hotel Brand' award.



81%

rating scored by Marriott hotels in the Guest Satisfaction Survey that customers are asked to complete.



Section 3
Employees

There's only one
way to build a great
people business.
And that's with
great people.

Nearly 60,000 individuals work in some 2,000 different locations. You'll find Whitbread people baking croissants, making beds and driving trucks. And you'll see them taking orders, serving espresso and calibrating treadmills.

Two things bring them all together. Firstly, they're all committed to achieving the highest standards of customer service. Secondly, they all work for a company that doesn't just say it wants to help them succeed, but one that demonstrates it too. The result? A working environment where people are recognised, rewarded and encouraged to achieve their full potential.



Becoming the
employer of choice

77% of Whitbread people say it is an enjoyable place to work.

Whitbread people enjoy their work

According to our 'Views' survey – which tracks employee opinions and benchmarks them against other high-performing UK companies such as Barclays, Nokia and Shell – 79% are proud to be associated with the company. In addition, 68% would recommend their company as a good place to work, with 77% reporting that it was an enjoyable place to work.

Of course, there's still much to do. We're working to improve the Views ratings still further, and development will continue to play a key role. From chefs' apprenticeships and Disney-certified customer service courses to the highest management qualifications, we aim to give our people the tools they need to succeed.

'I really wanted to do the Whitbread MBA and the company was very keen to support me,' says Claire Lawson, General Manager at the Birmingham Marriott. 'It's broadened my management experience and changed forever the way in which I make major decisions.'

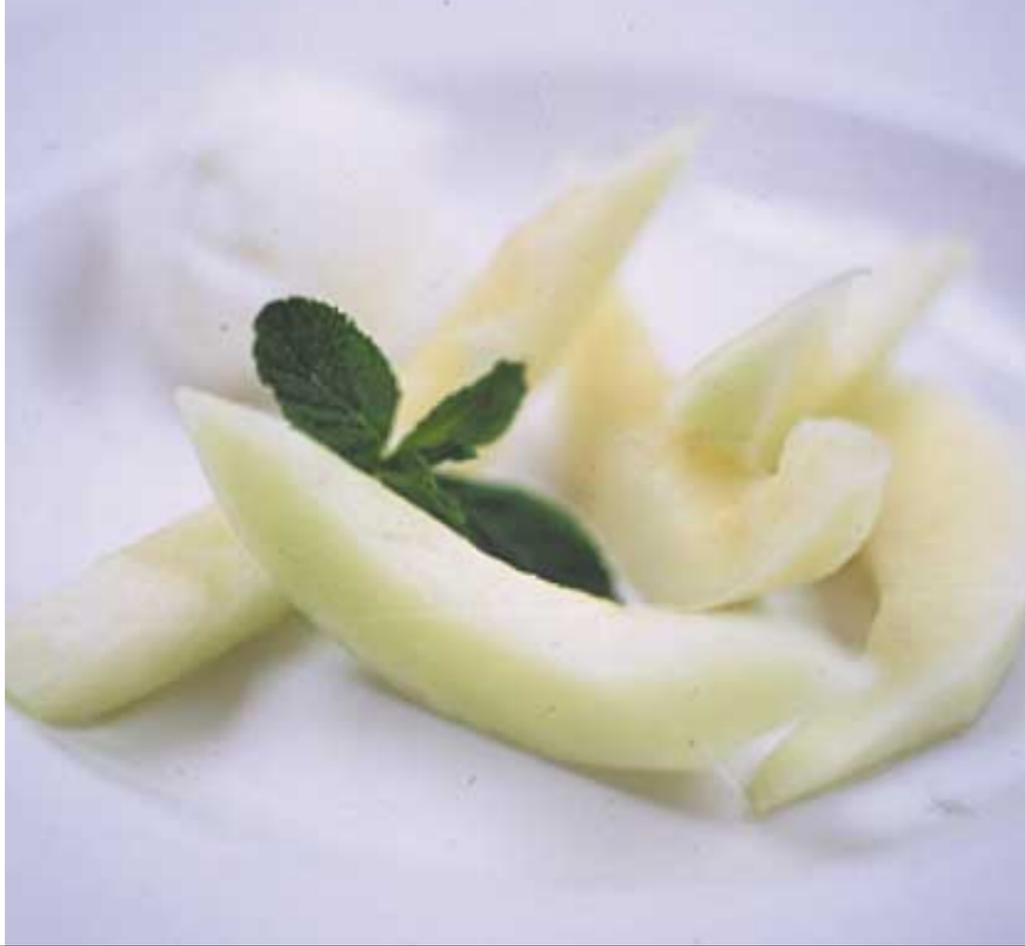
Internally, we now use a technique called 360 degree feedback to help individuals perform better. This involves people being rated by those they work alongside, those who work for them and their bosses. The feedback they get then helps them decide those areas they really want to work on improving and developing for the future, and gets built into their personal development plans. It's challenging but it's also extremely rewarding – so much so that it is now being requested by many people throughout the business.

During the year, pay rose ahead of inflation right across the company, with Whitbread hotels now a market leader for remuneration.



e.

The virtuous circle Whitbread people who are happy in their jobs will always do that little bit more for our customers. And customers who enjoy great service will always come back for more. That increased business feeds through to company profits – but it also gives us the resources we need to spend more on our employees.





There are dozens of great examples of how Whitbread people have gone that little bit further...

For example, during the fuel crisis, food delivery driver Malcolm Broadhurst spotted a rare filling station with supplies of diesel. He used his initiative – and his own Visa card – to fill up his and another Whitbread vehicle with over £400 of fuel.

Alix gets on his bike And when the same crisis meant that fellow driver Alix Francis was unable to get to work by car, he twice cycled the 58 mile round trip from Rhymney to Pontyclun. Most of the journey was in the dark. A great deal of it was uphill. All of it was essential if our restaurants and hotels in South Wales were to get their deliveries on time.

Losing the key, not the plot Employees working at former Swallow hotels have undergone a tough and demanding induction into the Whitbread way of life. The 'Becoming a Marriott' process concludes with BAM Day and the symbolic 'losing of the key' to signify that the doors are now open 24 hours a day.



Going that little bit further...
Alix takes it to extremes.





Tell us Little things make the big difference. The 'Tell Alan' (he's the boss) suggestion scheme gathered over 2,000 service improvement ideas from people working in our hotels.

We also continued to set the pace with the less tangible rewards, such as peer recognition. It might be a simple 'Thanks' posted on a board back of house, a voucher worth £5 or a holiday worth £3,000, Pizza Hut has a passion for recognising the value of its team-members. 'Our aim is to get two million smiles by 2005,' says Organisation Development Manager Michael O'Keefe.

Tell Alan!



A smile makes all the difference. Our aim is to get 2 million smiles by 2005.



We're an integral part
of modern life in the UK.
And we're keen to play
our part to the full.

Toddlers giggling in the ball-pond at Brewsters. A rowing eight huffing their way to fitness at David Lloyd Leisure. A sales executive opening her eyes after a good night's sleep with Travel Inn. Teenagers twitching curtains, anticipating the Pizza Hut delivery. A shy young couple ordering champagne with breakfast at a Marriott. An adventurous granny choosing the spinach and ricotta pasta instead of her usual steak at Beefeater.

These are the people who trust Whitbread to enrich their daily lives. We have a responsibility to give them the service and standards they deserve. We also have a duty to respect their communities and their environment.

Our **Environmental Policy** is concerned with common sense, not altruism: 'Whitbread believes that business has a responsibility to achieve good environmental practice and to continue to strive for improvement in its environmental impact. The efficient and effective use of resources makes sound commercial sense.'

Reducing our electricity bills by £2 million for the second year running is as good for our business as it is for our environment. Our commitment to greener policies was recognised by two separate industry awards. In November, Manchester Worsley Park Marriott became the first hotel in Europe to achieve Green Globe accreditation. The following month, Whitbread hotels became the first in the UK to be awarded Energy Efficiency accreditation from the Institute of Energy.

As one of the UK's major fleet operators, with around 1,300 vehicles travelling a total of over 20 million miles every year, Whitbread has a key role to play in reducing emissions. 'We were one of the first private sector companies to sign up to the Government's 'Motorvate' scheme,' says Central Services Manager Nigel Trotman. 'Now we're aiming to reduce fleet mileage by 10% by the year 2003 and to improve fuel consumption from around 35 to 40 mpg. This will also reduce our fleet costs year-on-year by 5%, giving us a business as well as an environmental benefit.'

Our **Community Policy** has evolved from a broad perspective to a tighter focus on helping young people to achieve their potential. In 2000, we initiated, joined, funded or supported a huge range of education projects. The Whitbread Hotel Company Millennium Appeal raised over £100,000 for the NSPCC.

The Environmental and the Community policies come together in the support we give to the Foyer Federation, an organisation which operates hostels for young homeless people. Our Community Action for Recycling Equipment (CARE) programme makes sure the equipment, furnishings and furniture we no longer need in our own businesses reach some of the organisations and people who do. Tables, beds, lamps and chairs from Beefeaters, Travel Inns and Marriotts are now helping to give new hope to young people in Ludlow, Norwich, Chichester, Exeter, Slough, Swansea, Braintree, Basildon and Painswick.

Volunteering has long been a feature of life at Whitbread. 'The company's foundations were based on caring for others,' explains Christine de Cruz, Employee Involvement Manager. 'Now, as the company evolves, we have an absolutely fantastic opportunity to build on that fine tradition.'

A fair deal from Costa Costa customers can now enjoy espresso and tea served with a healthy respect for the human race. Fairtrade means that coffee and tea growers in developing countries are paid a price above the world market price, which allows them to re-invest in their businesses.

Giving time to improve our environment Whitbread Action Earth, a national initiative we run with the National Lottery and the DETR, saw 10,000 people give their time and their skills to support a huge range of projects such as tidying footpaths and creating playgrounds.

A healthier environment David Lloyd Leisure has committed to reducing energy consumption by up to 20%, through the introduction of combined heat and power units, lighting management programmes and energy awareness education among employees.



Every day, Whitbread touches the lives of millions of people

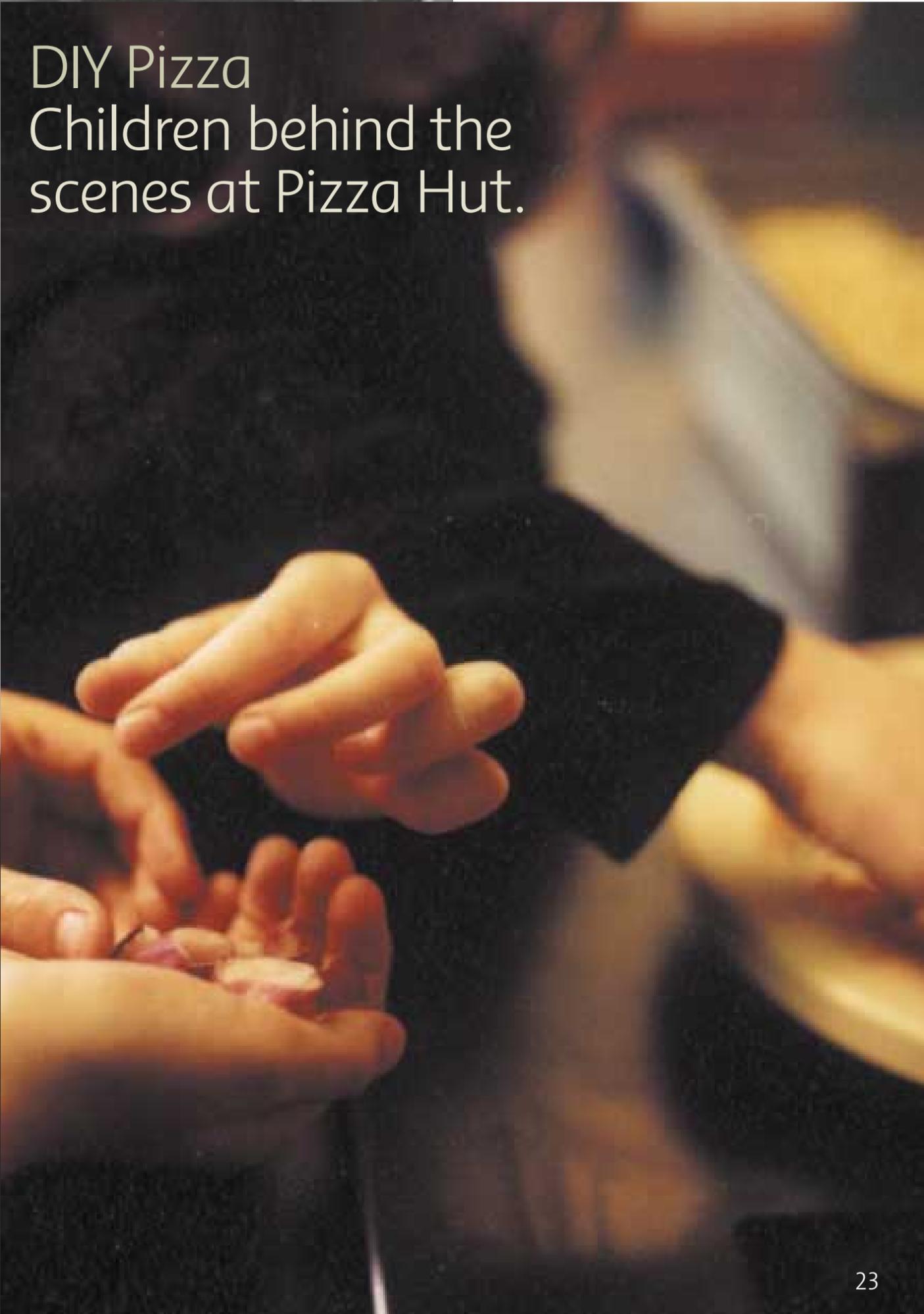


Working with suppliers We're constantly seeking ways to reduce costs while improving performance. A seven-year outsourcing deal with Computer Sciences Corporation (CSC) will give our IT resource the scale and flexibility to respond to business change. It will also allow us to keep pace with evolving technologies and achieve significant cost savings.

Seeing the light 12,000 Whitbread hotel rooms already have low energy light bulbs. The remaining rooms will follow suit in 2001.

Back to school Hundreds of Whitbread people go back to school each year – to mentor individual children, to help them read and to give them insights into the world of work. And children visit us for behind the scenes experience in our restaurants and hotels.

DIY Pizza Children behind the scenes at Pizza Hut.



ead
ple.

David Lloyd Leisure's trading highlight was a 23% increase in club members to 230,000.

Proforma results and net assets of future Whitbread divisions

	2000/1				1999/00			
	Turnover	EBITDA	Profit	Net assets	Turnover	EBITDA	Profit	Net assets
Marriott/Swallow	403	115	79	1,169	256	66	45	1,103
Travel Inn	158	70	56	424*	142	63	50	385*
Hotels	561	185	135	1,593	398	129	95	1,488
Restaurants	1,010	123	78	941	962	123	81	907
Sports, health and fitness	138	46	28	423	103	36	22	402
future Whitbread divisions	1,709	354	241	2,957	1,463	288	198	2,797

*Estimated

OPERATING REVIEW

Four strategic initiatives have had a significant impact on the accounts for 2000/1:

- the acquisition of the Swallow Group in January 2000.
- the disposal of the Whitbread Beer Company in May 2000.
- the disposal of Whitbread's 50% interest in the First Quench off-licence joint venture in October 2000.
- the establishment in February 2001 of Whitbread Holdings as the new holding company for Whitbread and the agreement signed, after the year end, in March 2001 to demerge the Pubs & Bars division.

The effects of these initiatives are described later in this review. After the completion of the demerger of Pubs & Bars, future Whitbread will comprise the Whitbread Hotel Company, Whitbread Restaurants and David Lloyd Leisure.

The comparative period for these results (1999/00) contained 53 weeks. This benefited sales and profits in that year.

Operating profit and EBITDA figures, where referred to in this review, are stated before exceptional items.

Turnover including joint ventures fell by 17% as a result of the disposals referred to above. Like-for-like sales increased by 2.5% while sales of future Whitbread increased by 17%. Group turnover, which excludes sales of joint ventures, fell by 12%.

Operating profit before exceptional items grew by 4%. Operating profit for future Whitbread divisions increased by 22%. The profit contribution of each business is described below. In 2001/2 the results of all Travel Inns operated by Whitbread will be reported under 'Hotels'. Currently Travel Inns adjacent to Restaurants' outlets and David Lloyd Leisure clubs are reported within the results of those divisions. A proforma of the estimated 2000/1 results on this basis, with comparatives, is shown in the table above.

Earnings before interest, tax, depreciation and amortisation (EBITDA) and before exceptional items, which is a good indicator of cash generation, grew by 2%. Once again year over year growth was significantly affected by the strategic initiatives described earlier. EBITDA by division is reported later in this review.

Profit before exceptional items and tax was down by 4%. This result reflects the profit dilution from the disposal of the Whitbread Beer Company. In the longer term, it is anticipated that the reinvestment of the proceeds of its sale will generate a higher return than that which would have been generated by retaining our beer business.

Earnings per share was up by 10%. Adjusted EPS was down by 1%, reflecting the factors already referred to. The proposed final dividend is 23.10 pence per share, a 5.7% increase on last year. The full year's dividend per

share, interim plus final, is up by 5.6% to 31.15 pence per share. The proposed final dividend of 23.10 pence is equivalent to 38.50 pence per share in respect of each share held, after taking account of the proposed share capital consolidation.

Capital expenditure – £332 million (1999/00: £372 million) was invested in existing businesses in the year. Of this amount £235 million related to future Whitbread and included £120 million on acquiring and developing new retail sites. Most of the new site expenditure was spent by Marriott Hotels, Travel Inns, David Lloyd Leisure and Brewers Fayre.

Cash inflow before financing was £461 million. This figure includes net proceeds from businesses sold of £500 million. After adjusting for this, for the expenditure on acquiring and developing new sites and for businesses acquired, the underlying cash flow was £92 million.

HOTELS

– Sales	£440m	+53%
– Like-for-like sales		+9%
– EBITDA	£129m	+66%
– Operating profit	£90m	+66%
– Capital expenditure	£101m	

Marriott occupancy was 75% and achieved room rates rose 8% to £83.13. Revenue per available room was up 8% to £62.35. The brand's yield premium to the market was 17%. Guest satisfaction scores grew 2% to 81%. The Marriott brand was voted the British Business Travellers' Leading Choice Hotel Brand of the Year in the 2001 British hotel guest survey.

Swallow hotels' total and like-for-like sales were disrupted by the conversion to the Marriott brand. Ten hotels converted in summer 2000 and a further seven in spring 2001. Five more will follow by the autumn. The Swallow acquisition as a whole is on track to achieve the returns expected in its third full year.

Travel Inn occupancy within the Hotel Company was 85% with total accommodation sales up 19%. Including the joint venture with Punch Retail and the management agreement with Road Chef, 29 new Travel Inns were opened during the year bringing the total to 262 with 14,186 rooms.

Total hotel profit including Travel Inns reported through other businesses was £135 million. With 336 hotels and 25,000 rooms, Whitbread is now the second largest operator in the UK hotel market. There are a further 16 hotels currently under development.

Total hotel like-for-like sales grew 7% with Marriott up 9% and the Travel Inn brand up 5%.

RESTAURANTS

– Sales	£1,130m	+5%
– Like-for-like sales		+2%
– EBITDA	£179m	+3%
– Operating profit	£123m	+1%
– Capital expenditure	£93m	

Restaurant sales and profit growth were largely driven by the three big brands of Brewers Fayre, Beefeater and adjacent Travel Inns. Together these brands represented 91% of Restaurant operating profit – Brewers Fayre (38%), Travel Inn (36%) and Beefeater (17%). Like-for-like sales for the UK brands were 3% ahead with good performances from Pizza Hut and Costa.

In October the Restaurants Division announced the provisional results of a review of brands. The major features were:

- the expansion of the successful Brewsters brand to 200 sites;
- the planned segmentation of the 258 strong Beefeater estate;
- the expansion of Costa to 500 sites;
- the disposal of 140 sites – some 10% of the total;
- the trial of updated Café Rouge, Bella Pasta and T.G.I. Friday's brands.

All these strategies are now being implemented and their success is being monitored in order to complete the review process in the first half of the current financial year.

Brewers Fayre grew total sales by 8% and like-for-like sales by 4%. The brand grew from 386 to 393 sites – 120 of them Brewsters. Average weekly sales in Brewsters were boosted some 7% following conversion.

Beefeater grew total sales by 0.4% and like-for-like sales by 2%. Final quarter like-for-like sales increased by 3%. The new Out & Out restaurant pub brand was introduced to 13 sites. A further 30 Beefeaters will become Out & Outs in the current financial year. New brands for the remainder of the estate are currently in trial.

Pizza Hut grew total sales by 6% and like-for-like sales by 4%. Full service restaurants achieved like-for-like sales up 5%. The number of outlets trading at the end of the year was 442.

Pelican, which consists mainly of the Café Rouge and Bella Pasta brands, saw total sales decline by 4% following the closure of restaurants but like-for-like sales were slightly ahead by 0.5% and by 5% in the core estate for the final quarter of the year.

T.G.I. Friday's grew total sales by 10% although like-for-like sales were down by 5%. Management actions to redress the like-for-like performance began to take effect in the final quarter of the year.

Whitbread Restaurants Germany achieved like-for-like sales growth of 2% before they were affected by customer concern over BSE in the second half of the year. For the year as a whole, sales in local currency declined by 0.4% in total and 4% on a like-for-like basis.

Costa grew total sales by 44% and like-for-like sales by 10%. The number of units trading grew from 192 to 253 in the course of the year.

future Whitbread sales up

+17%

SPORTS, HEALTH AND FITNESS

- Sales	£139m	+34%
- Like-for-like sales		+9%
- EBITDA	£46m	+26%
- Operating profit	£28m	+24%
- Capital expenditure	£33m	

David Lloyd Leisure's trading highlight was a 23% increase in club members to 230,000. This was despite opening only one new club during the period and a slow start to membership sales in the first half of the year.

Memberships are the key to success in this business. In mature clubs (over three years old) increasing memberships improves sales, margins and the return on capital employed while in new and developing clubs they shorten the build to maturity. Membership retention rates at 79% were well ahead of the industry norm.

Initiatives to improve early returns in new clubs have benefited the two most recent openings. Edinburgh exceeded its first year membership target by 50% leading to a 6% point improvement in year one return on capital. The new Southampton club is showing similar promise and this new approach will be applied to the five new clubs opening in the current financial year.

David Lloyd Leisure is the largest business of its kind in the UK having grown from 14 clubs at the time of its acquisition to a total of 44 at the end of the year. It is also the best recognised brand name with public awareness three times the rating of the nearest competitors according to an NOP survey.

PUBS & BARS

	Managed		Leased	
Sales	£531m	+2%	£147m	0%
Like-for-like sales		0%		+2%
EBITDA	£133m	-2%	£75m	+10%
Operating profit	£105m	-3%	£72m	+11%
Capital expenditure	£72m		£13m	

Managed pubs total sales grew 2% although like-for-like sales were flat and operating profit declined. This disguised a particularly strong performance by the High Street bars business where total sales were 17% ahead and like-for-like sales were up 1%.

Leased pubs total sales were steady although like-for-like sales were up 2% and operating profit was up 11%. Profit per pub grew 13%. 133 major developments were completed during the year and 120 leases were assigned at an average premium of £65,000 for the outgoing lessee.

BEER AND OTHER DRINKS

For Beer, sales were £324 million and operating profit was £13 million. The Whitbread Beer Company was sold to Interbrew on 25 May 2000 for £394 million. Other drinks comprise Whitbread's former 50% interest in the First Quench off-licence business and a 25% share of Britannia Soft Drinks. Sales for other drinks for the period were £360 million and operating profit was £13 million. The sale of First Quench to Nomura, for a total consideration of £226 million of which 50% was payable to Whitbread, was completed on 16 October 2000.

SUMMARY DIRECTORS' REPORT – YEAR ENDED 3 MARCH 2001

Results and dividends

The group profit before tax for the year amounted to £292.3 million. The directors have recommended a final dividend for the year of 23.10 pence per ordinary share currently in issue. This amount will represent 38.50 pence per share assuming the consolidation of capital becomes effective. The dividend will be payable on 13 July 2001 to shareholders on the register at close of business on 18 May 2001. The total dividend for the year, including the interim dividend of 8.05 pence per share paid on 9 January 2001, amounts to 31.15 pence per share, which represents an increase of 5.7% on the total dividend for the previous year. Shareholders may participate in a dividend reinvestment plan, under which their cash dividend is used to purchase additional shares in the company. Information on the plan is given on page 26.

Principal activities and review of the business

A detailed review of the company's activities and the development of its business, and an indication of likely future developments, are given on page 2 and pages 24 and 25.

Board of directors

The directors are listed on pages 26 and 27. All of them served throughout the financial year, except Stewart Miller and Alan Parker who were appointed on 5 May 2000, Charles Gurassa who was appointed on 26 July 2000 and David Turner who was appointed on 1 January 2001. All the directors will stand for re-election at the forthcoming Annual General Meeting as they were appointed at a board meeting during the year. The executive directors have service contracts with a notice period of two years. None of the non-executive

directors has a service contract other than as described in the Remuneration Report in relation to Sir John Banham.

Annual General Meeting

The AGM will be held at 11.30am on 19 June 2001 at The Brewery, Chiswell Street, London EC1Y 4SD. The notice of meeting is enclosed with this report and is accompanied by a letter from the chairman. In addition to the ordinary business of the meeting, shareholder consent will be sought to renew authority for the purchase by the company of its own ordinary shares, to make amendments to the company's Articles of Association, to approve new employee share schemes and approve a minor change to the capital structure.

Corporate governance and directors' remuneration

The company is committed to high standards of corporate governance. A detailed report on the company's compliance with the Combined Code of best practice on corporate governance is contained in the full Annual Report and Accounts 2000/1 on pages 14 to 16. The full Remuneration Report is set out on pages 16 to 22 of the Annual Report and Accounts. The report can be found on the company's website at www.whitbread.co.uk. It will also be sent in hard copy to anyone who completes and returns the coupon attached to the proxy form enclosed with this document.

The table below shows the total remuneration for the chairman and executive directors together with information about pensions, share option gains and awards under the Long Term Incentive Plan.

Directors' remuneration

	Total 2000/1 remuneration £(i)	Increase in accrued pension in 2000/1 £(ii)	Notional gains made on exercise of options in 2000/1 £
Sir John Banham	146,187	–	–
S Miller	389,798	31,222	–
A C Parker	312,656	17,252	3,116 ⁽ⁱⁱⁱ⁾
A S Perelman	428,180	14,666	–
D H Richardson	305,271	12,074	374 ⁽ⁱⁱⁱ⁾
W M F C Shannon	394,777	16,583	310 ⁽ⁱⁱⁱ⁾
D M Thomas	660,387	26,810	–

(i) Total emoluments for the period were £2,963,612 excluding other bonuses, including non-executive directors' fees* (1999/00 – £2,541,763). For full details see the Annual Report and Accounts 2000/1.

(ii) The total increase in directors' accrued pension entitlement was £118,607 (1999/00 – £82,850).

(iii) Options exercised under the Savings Related Share Option Scheme.

There were no actual awards received in 2000/1 under the Long Term Incentive Plan.



David Richardson
Finance Director

Sir John Banham*
Chairman

Appointed a director in November 1999, Sir John succeeded Sir Michael Angus as chairman after the annual general meeting on 20 June 2000. He is a member of the Remuneration Committee and chairman of the Nomination Committee. Currently chairman of Kingfisher and ECI Group and a non-executive director of Amvescap, Sir John was a director of McKinsey and Co before becoming the first Controller of the Audit Commission in 1983 and a director-general of the CBI in 1987. He was also the first chairman of the Local Government Commission for England from 1992-95, and the founding chairman of Westcountry Television. Aged 60.

David Thomas
Chief Executive

Appointed chief executive in 1997, he has been at Whitbread since 1984 and a director since 1991. His roles have included managing director of Whitbread Inns and Whitbread Restaurants and Leisure. Previously, he was with Finefare, Linfood and Grand Metropolitan. He is a trustee of In Kind Direct, a member of the London Tourist Board and a council member of the Brewers and Licensed Retailers Association. Aged 57.

David Richardson

In addition to his role as strategic planning director, David became finance director on 1 March 2001. He has been with Whitbread since 1983 and was appointed to the board in 1996. He was previously at ICL, having qualified as an accountant with Touche Ross. Aged 49.

Bill Shannon

Managing director of Whitbread Restaurants division and a director of Whitbread since 1994, he joined the company in 1974 as a finance manager and has since been managing director of Beefeater Restaurant and Pub, Thresher, Whitbread Pub Partnerships and Whitbread Inns. He is a non-executive director of Aegon UK PLC. Aged 51.

Stewart Miller

Managing director of David Lloyd Leisure since May 2001, Stewart Miller was appointed to the board on 5 May 2000. He has been with Whitbread since 1981, in roles including operations director and chief executive of Pizza Hut UK, operations director of Beefeater, sales and marketing director of Whitbread Inns and managing director of Whitbread Pub Partnerships and Whitbread Pubs & Bars. Aged 48.

SUMMARY GROUP PROFIT AND LOSS ACCOUNT – YEAR ENDED 3 MARCH 2001
OUR RESULTS FOR THE YEAR – WHAT WE SOLD, THE PROFIT WE EARNED AND WHAT WE DID WITH IT

	2000/1			1999/00 restated (53 weeks)		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Turnover – group and share of joint ventures	3,095.2	–	3,095.2	3,738.9	–	3,738.9
Less share of joint ventures' turnover	(500.6)	–	(500.6)	(787.5)	–	(787.5)
Group turnover	2,594.6	–	2,594.6	2,951.4	–	2,951.4
Operating profit*	428.2	(3.1)	425.1	411.5	(78.5)	333.0
Non-operating items	–	(39.1)	(39.1)	–	(13.9)	(13.9)
Profit before interest	428.2	(42.2)	386.0	411.5	(92.4)	319.1
Interest	(93.4)	(0.3)	(93.7)	(63.1)	–	(63.1)
Profit before taxation	334.8	(42.5)	292.3	348.4	(92.4)	256.0
Taxation	(78.1)	(16.5)	(94.6)	(81.1)	5.7	(75.4)
Profit after taxation	256.7	(59.0)	197.7	267.3	(86.7)	180.6
Minority interests	(0.1)	–	(0.1)	(0.2)	–	(0.2)
Preference dividends	–	–	–	(0.3)	–	(0.3)
Profit earned for ordinary shareholders	256.6	(59.0)	197.6	266.8	(86.7)	180.1
Ordinary dividends	(153.1)	–	(153.1)	(146.5)	–	(146.5)
Retained profit for the year	103.5	(59.0)	44.5	120.3	(86.7)	33.6
Earnings per share (pence)						
Basic			39.93			36.36
Adjusted basic	53.49			54.12		
Dividends per share (pence)						
Interim			8.05			7.65
Final (proposed)			23.10			21.85

*Included in operating profit is income from joint ventures of £10.0m (1999/00 – £9.7m) and from associates of £13.8m (1999/00 – £12.3m).

Report of the Auditors to the members of Whitbread Holdings PLC

We have examined the summary financial statement set out on pages 26 and 27, the preparation of which is the responsibility of the directors. Our responsibility is to report to you our opinion as to whether the statement is consistent with the annual financial statements and directors' report.

In our opinion the summary financial statement is consistent with the annual financial statements and the directors' report of Whitbread Holdings PLC for the year ended 3 March 2001 and complies with the Companies Act 1985 and the regulations made thereunder, applicable to summary financial statements.

Ernst & Young
Registered Auditor
London
1 May 2001

The Auditors have issued an unqualified report on the annual financial statements containing no statement under Section 237(2) or Section 237(3) of the Companies Act 1985.

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 Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA. Their website address is www.lloydstsb-registrars.co.uk. For enquiries regarding your shareholding please telephone 0870 6003968. You can also view up-to-date information about your holdings by visiting the shareholder website at www.shareview.co.uk. Please ensure that you advise Lloyds TSB promptly of a change of name or address.

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.

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 6003968.

Individual Savings Account (ISA)

Lloyds TSB Registrars provide a company sponsored ISA. For further information or to receive a copy of the ISA brochure please ring 0870 2424244. Calls are charged at national rates.

Share dealing service

Barclays Stockbrokers provide a low cost telephone and postal share dealing service for Whitbread Holdings PLC ordinary shares. For further information or to receive a copy of the share dealing brochure please ring 0845 7023021. Lines are open between 8.00am and 6.00pm Monday to Friday, except bank holidays, and between 9.00am and 1.00pm on Saturday. All calls are charged at the local rate and can only be made from within the UK. For your security all calls are recorded and randomly monitored. Barclays Stockbrokers Limited is a member of the London Stock Exchange and regulated by the SFA.

Alan Parker

Alan Parker joined Whitbread as Managing Director of Whitbread Hotel Company in 1992. He was appointed to the board on 5 May 2000. He was previously Senior Vice-President of Holiday Inn Europe, Middle East and Africa, and before that Managing Director of Crest Hotels. He is Visiting Professor at the University of Surrey, Trustee of Hospitality Action, and Ex-Chairman of the British Hospitality Association. Aged 54.

Charles Gurassa*

Appointed a director on 26 July 2000, he is chairman of the Remuneration Committee and a member of the Nomination Committee. He is currently Group Chief Executive of Thomson Travel Group plc and an Executive Director of Preussag AG, having formerly been with British Airways as Head of Leisure, World Sales, and Director of Passenger and Cargo Business. Aged 45.

Prue Leith*

Appointed a director in 1995, Prue is a member of the Remuneration, Audit and Nomination Committees, a former non-executive director of Safeway PLC and Halifax PLC and is a non-executive director of Triven VCT PLC. Aged 61.

John Padovan*

A director since 1992, he is a member of the Remuneration and Nomination Committees, chairman of the Audit Committee and chairman of Whitbread Pension Trustees. He is chairman of Williams Lea Group and Schroder Split Fund and chairman or non-executive director of several other listed and unlisted companies. Aged 62.

David Turner*

Appointed a director on 1 January 2001, he is a member of the Audit, Remuneration and Nomination Committees. He is finance director of GKN plc. Aged 56.

Sam Whitbread*

A director since 1972 and chairman from 1984 to 1992, he is a member of the Remuneration, Nomination and Audit Committees. Aged 64.

Lord Williamson*

Appointed a director in 1998. Before this, he was secretary-general of the European Commission from 1987 to 1997, having been head of the European secretariat, UK Cabinet Office from 1983 to 1987 and Deputy Director General for Agriculture at the Commission between 1977 and 1983. He is a member of the Audit, Remuneration and Nomination Committees. Aged 66.

*Non-executive director

Share price information

You can get information on the price of Whitbread ordinary shares 24 hours a day, 365 days a year on 0900 1353632. Calls are charged at premium rates (60p per minute). Please note that these are indicative prices only and may have changed by the time you place your deal.

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' shares of 25p each	103.75p

Shareholder benefits

Shareholders with a holding of 100 or more shares may buy company leisure vouchers at 12½% discount, subject to a minimum purchase of £50 of vouchers at any one time and a maximum of £2,000 worth per year. Following the reduction and consolidation of share capital on 10 May 2001, the minimum holding required to qualify for shareholder benefits will be 60 shares. The vouchers can currently be redeemed at our outlets in the UK. An order form is sent out with the report and accounts in May and with the interim report in November to those shareholders qualifying for the offer.

FINANCIAL DIARY

Ex-dividend date for final dividend	16 May 2001
Record date for final dividend	18 May
Annual General Meeting	19 June
Payment of final dividend	13 July
Financial half year end	1 September
Announcement of half year results	30 October
Ex-dividend date for interim dividend	7 November
Record date for interim dividend	9 November
Payment of interim dividend	8 January 2002
End of financial year	2 March

SUMMARY GROUP CASH FLOW STATEMENT – YEAR ENDED 3 MARCH 2001**CASH EARNED BY THE BUSINESS**

	2000/01 £m	1999/00 £m
Cash inflow from operations	492.3	559.0
Dividends received from joint ventures and associates	3.5	1.7
Interest paid, less received, and investment income	(96.9)	(77.4)
Tax paid	(92.9)	(52.8)
Net capital expenditure	(185.7)	(344.7)
	120.3	85.8
Net cash inflow/(outflow) from acquisitions and disposals of businesses	489.3	(621.1)
Ordinary dividends paid to shareholders	(148.2)	(139.3)
Net cash inflow/(outflow) before changes in funding	461.4	(674.6)
Net share and loan capital raised/(repaid)	(448.2)	705.0
Increase in cash	13.2	30.4

SUMMARY GROUP BALANCE SHEET AS AT 3 MARCH 2001**A SNAPSHOT OF THE GROUP'S FINANCIAL POSITION**

	2001 £m	2000 (restated) £m
Fixed assets		
Intangible assets	151.8	157.7
Tangible assets	4,138.1	4,254.3
Investments	96.3	201.9
	4,386.2	4,613.9
Current assets and liabilities		
Stocks	36.1	64.9
Debtors	165.9	338.9
Cash at bank and in hand	66.9	123.1
	268.9	526.9
Creditors – amounts falling due within one year	(689.9)	(1,447.1)
Net current liabilities	(421.0)	(920.2)
Total assets less current liabilities	3,965.2	3,693.7
Creditors – amounts falling due after more than one year	(1,272.6)	(1,120.2)
Loan capital		
	(41.6)	(31.9)
Provisions for liabilities and charges	(41.6)	(31.9)
	2,651.0	2,541.6
Capital and reserves		
Called up share capital	2,207.8	2,235.0
Revaluation reserve	621.5	669.1
Other reserves	(1,830.5)	(1,934.7)
Profit and loss account	1,646.9	1,566.9
Shareholders' funds	2,645.7	2,536.3
Minority interests	5.3	5.3
	2,651.0	2,541.6

The summary financial statement on pages 26 and 27 was approved by the directors on 1 May 2001 and signed on their behalf by D M Thomas and D H Richardson.