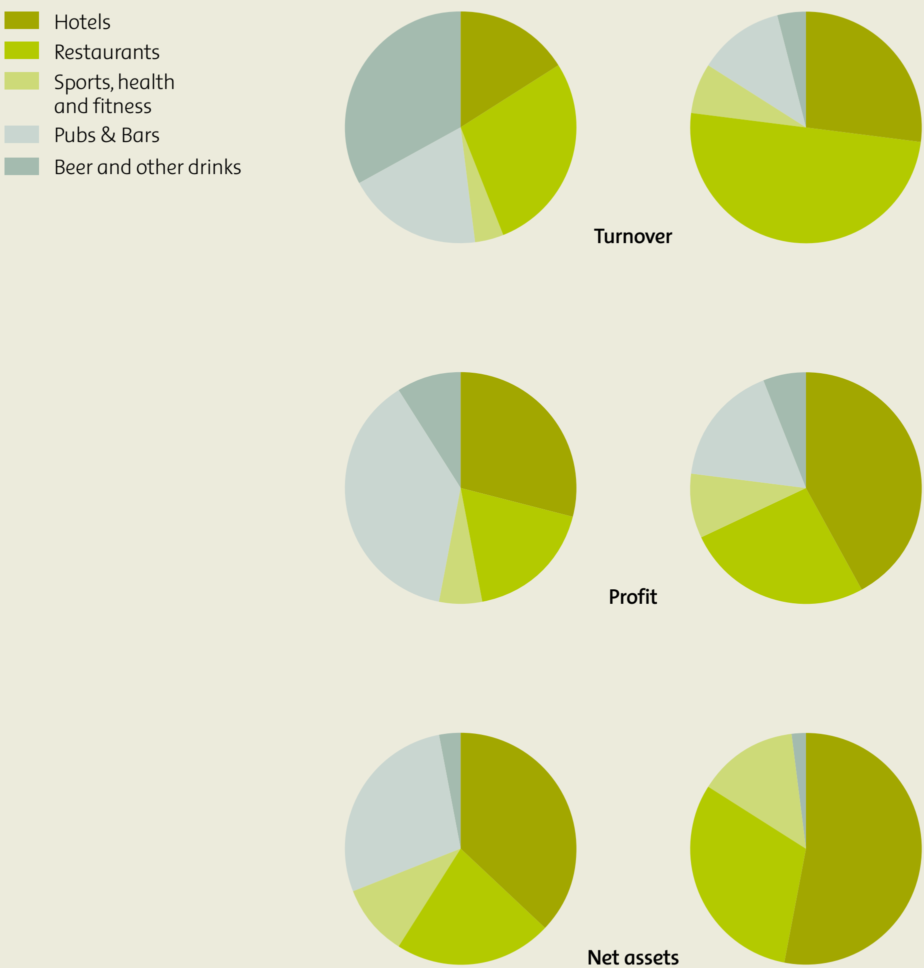
Interim Report and
Accounts 2001/2

Whitbread: strong trading results and value creation

TRANSFORMATION OF WHITBREAD

2000/1 (first half-year) | 2001/2 (first half-year)



Financial highlights for the six months to September 2001

Significant progress towards the demanding financial targets the board has set.

> future Whitbread like-for-like sales up 4.2%
> future Whitbread operating profit up 10.1%
> net assets per share up 27%
> £487 million premium from Pubs & Bars demerger

		Total group* % change		**future Whitbread** ** **% change**
Sales including share of joint ventures	£1,141m	(35)	**£908m**	**7.1**
EBITDA before exceptional items	£239.4m	(24)	**£197.1m**	**9.4**
Operating profit before exceptional items	£172.0m	(26)	**£137.2m**	**10.1**
Profit before exceptional items and tax	£135.7m	(25)	–	–
Adjusted earnings per share	25.77p	3.0	–	–
Dividend per share	5.05p	(37)	–	–
Net assets per share	£6.44	27	–	–

*Part-year only for Pubs & Bars division.
**Results for hotels, restaurants and sports, health and fitness.

Chairman's statement

The last six months have demonstrated the potential of the future Whitbread businesses to outperform their markets.

Dear Shareholder,

Whitbread has made good progress towards the achievement of our financial targets with all continuing businesses improving sales, like-for-like sales, and operating profit.

These results include ten weeks trading for the Pubs & Bars division which was demerged in May and subsequently acquired by a Morgan Grenfell Private Equity company. The gross value of £1.625 billion represented a £487 million premium over the book value of these assets. £1.129 billion was returned to shareholders, on schedule, in June. Even after this transaction, net assets per share were £6.44.

For the future Whitbread businesses, like-for-like sales for the period were ahead 1.8% in hotels, 3.7% in restaurants and 18.2% in sports, health and fitness leading to total like-for-like sales growth of 4.2%. Operating margins also improved and total operating profit grew 10.1%. Returns on capital were stronger for both restaurants and sports, health and fitness although London market conditions meant hotel returns were flat.

For the major brands, trading since 2 September has, for the most part, been very encouraging. Like-for-like sales for the two months were ahead 5.6% in Travel Inn, 7.9% in Brewers Fayre, 5.2% in Beefeater and 16.7% (for September only) in David Lloyd Leisure. Core Marriott hotels, however, suffered a 4.7% fall in like-for-like sales reflecting a 3.9% growth in the provinces but a 24.6% decline in London.

Strong brands, a committed team of people and high quality assets.

Only some 10% of future Whitbread profitability is generated in London. The rest of the country continues to trade satisfactorily. It may well be that this trend continues but until the market outlook becomes more certain, particularly in hotels, we have taken a number of actions across the business to ensure we have additional flexibility as to costs and cash flow.

Plans have been put in place to reduce overhead and operating costs and to give us the option to defer some £150 million of capital expenditure in the current and next financial years. In hotels, £60 million of this deferment is being implemented now along with a reduction of £10 million in operating costs for the 2002/3 financial year.

Future Whitbread has strong brands, a skilled and committed team of people and high quality assets. The last six months have demonstrated the potential of the future Whitbread businesses to outperform their markets and to achieve significant progress towards the demanding financial targets the board has set.

The interim dividend of 5.05 pence per share will be paid on 8 January 2002 to all shareholders on the register at the close of business on 9 November 2001.

Sir John Banham
Chairman

Marriott profit per room up 6.3% to £8,400.

Operating profit and EBITDA (see Finance Review) are stated before exceptional items (see note 3 to the accounts).

Like-for-like sales are total sales less sales of retail outlets opened for the first time or disposed of since the beginning of 2000/1.

Sales
£203.7m **+1.8%**

Like-for-like sales growth
1.3%

Operating profit
£42.4m

Operating profit growth
5.7%

Marriott/Swallow

The Marriott/Swallow business achieved a 1.8% increase in sales and a 5.7% increase in operating profit, despite the decline in US visitors to London throughout the period and the inevitable disruption caused by converting a further 12 Swallow hotels to the Marriott brand.

The core Marriott hotels, grew total operating profit by 20.6% following a 36.6% increase in the provinces but an 8.9% decline in London. Achieved room rate grew 3.3% to £83.34. The brand's yield premium to the 4-star market continued to grow to 21% in London and 20% in the provinces. The first ten Swallow conversions also grew operating profit strongly at 24.4% ahead of last year.

Excluding the disposal hotels, profit per room, Marriott's key shareholder value target, grew 6.3% to an annual rate of £8,400 helped by the expected yield improvement of the converted Swallow hotels and by a 2.3% improvement in non-room revenue. Operating margins improved slightly.

Sales
£87.9m **+9.3%**

Like-for-like sales growth
3.0%

Operating profit
£31.5m

Operating profit growth
9.4%

Travel Inn

Travel Inn grew sales by 9.3% and operating profit by 9.4%. Occupancy in like-for-like hotels was 86.0% and achieved room rate was 4.2% ahead at £38.09. The number of rooms grew in the half-year from 14,186 to 15,106.

Pizza Hut was the main contributor to the 19% increase in high street restaurants' operating profit.

Sales	
£299.1m	**+6.1%**
Like-for-like sales growth	
4.5%	
Operating profit	
£44.2m	
Operating profit growth	
10%	

Pub restaurants
The 10% improvement in pub restaurants' operating profit was driven by the Brewers Fayre brand which grew its operating profit by 18%. Brewers Fayre like-for-like sales were up 4.2%, and operating margin was 1.7% points ahead at 18.5%. A further nine Brewsters were opened bringing the total to 129.

Beefeater like-for-like sales grew 5.0% but operating profit fell by 8.5% as a result of the associated costs and trading weeks lost through the new brand conversion programme. Operating profit for the comparable Beefeater estate was up 7.4%. Average weekly sales for the 27 Out & Out units were up 15%.

Sales	
£237.1m	**+8.0%**
Like-for-like sales growth	
2.7%	
Operating profit	
£3.1m	
Operating profit growth	
19%	

High street restaurants
Pizza Hut was the main contributor to the 19% increase in high street restaurants' operating profit. The brand's like-for-like sales grew 6.9% and operating profit doubled. The other high street brands also grew like-for-like sales – Costa by 6.2%, T.G.I. Friday's by 2.8%, and Pelican by 1.4%. The UK high street brands' total like-for-like sales were up 4.4% with the German restaurants still negative at (7.3)% following the BSE scare last year.

During the period the review of high street brands was concluded. Pizza Hut, Costa and T.G.I. Friday's all have the potential to achieve the required level of performance, based on Whitbread's overall financial criteria, but a number of smaller brands including Bella Pasta, Café Rouge, Abbaye and Mamma Amalfi are unlikely to achieve the necessary scale. A new operating structure is being established to manage these brands separately from the Restaurants division and in due course, they will be sold.

In addition, the restaurant management team has largely completed the previously announced disposal of 140 sites. In October, 44 pub restaurants, including eight under the Dragon Inn brand, were acquired by the Noble House Pub Company for £31 million.

Sales	
£80.4m	**+21.5%**
Like-for-like sales growth	
18%	
Operating profit	
£16.0m	
Operating profit growth	
24%	

Sports, health and fitness
David Lloyd Leisure's operating profit growth of 24% was achieved largely through improving the performance of the existing business. Like-for-like sales growth of 18% for the segment and 20% for David Lloyd Leisure clubs led the UK health and fitness industry. The total number of David Lloyd Leisure members grew 12% from 222,000 in February to 248,000 at 1 September. Operating margins improved slightly over the same period last year.

Membership fees are the dominant source of revenue for this business but income from other sources such as food and beverage sales and personal tuition represent a significant opportunity. Management action increased 'non-fee' income by 13% in the period.

David Lloyd Leisure clubs have, in the past, taken three years to reach mature operating levels and to contribute a return on capital in excess of 15%. The number of fee-paying members is the key determinant. Pre-opening marketing activity has boosted initial member totals to an average of 1,780 for the four most recent club openings which is over 60% ahead of previous experience.

The group's profit margin increased from 13.1% to 15.1%.

Pubs & Bars turnover for the first ten weeks of the financial year prior to the demerger in May was £126 million with operating profit of £30.5 million.

Beer and other drinks turnover of £38.6 million relates to Whitbread's continuing contractual relationship with Heineken and operating profit of £11.3 million relates primarily to Whitbread's 25% holding in Britannia Soft Drinks.

David M Thomas CBE
Chief Executive

The last 21 months has been a period of transformation for Whitbread.

Accounting policies
FRS 19 (Deferred Tax) has been adopted for these accounts. Deferred tax is the tax attributable to the timing differences arising from the inclusion of items of income and expenditure in one period for tax purposes (in accordance with tax legislation) and another for accounting (in accordance with UK company law and financial reporting standards). The principal timing difference for Whitbread relates to hotel buildings and furniture, fixtures and equipment in all our properties. For these assets, tax relief normally exceeds the charge against profit for depreciation in the early years of their life. The position reverses in later years.

The impact of adopting FRS 19 is detailed in note 1 to the accounts. It should be emphasised that FRS 19 has no impact on tax paid nor cash flows.

Year over year comparisons of performance
The last 21 months has been a period of transformation for Whitbread, inevitably hindering year over year comparisons of performance. During this time the following strategic initiatives have been completed:

– 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 ventures in October 2000.

– the demerger of the Pubs & Bars division in May 2001.

These transactions have created value for shareholders and enabled Whitbread to focus on those growth segments of the UK leisure market where the group already occupies leading positions.

Wherever possible, the results in this report are presented in a way which helps the measurement of performance trends in future Whitbread.

All future Whitbread businesses contributed profit increases.

On a like-for-like basis, turnover including joint ventures grew by 4.2%. Total turnover for future Whitbread grew by 7.1%.

Demerger of Pubs & Bars

The demerger of the Pubs & Bars division was concluded in May at a value of £1,612 million, after adjustments for working capital. £1,129 million of cash was returned directly to shareholders and £483 million was retained by the group to pay transaction costs and reduce long term borrowings. The transaction realised a gain on the book value of Pubs & Bars of £487 million. This gain is included in the movement on shareholders' funds (see page 13 of this statement) but, for technical reasons, it is not included in the profit and loss account.

Turnover

On a like-for-like basis, turnover including joint ventures grew by 4.2%. Total turnover for future Whitbread grew by 7.1%. As a consequence of the transactions described earlier, total turnover including joint ventures fell by 35%.

Operating profit

All future Whitbread businesses contributed profit increases, as described in the Chief Executive's Review. The operating profit before exceptional items of future Whitbread businesses grew by 10%. Total operating profit before exceptional items fell by 26% to £172.0 million, reflecting the transactions described earlier.

The group's profit margin (operating profit before exceptional items as a percentage of turnover including joint ventures) increased from 13.1% to 15.1%. This increase is mainly attributable to the exit from the lower margin beer and off-licence businesses and the expansion of the higher margin hotels and sports, health and fitness businesses.

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

EBITDA is a good indicator of the operating cash generated by each division. For future Whitbread, EBITDA grew by 9.4% to £197.1 million.

Adjusted earnings per share, increased by 3.0% to 25.77 pence.

Exceptional items

Exceptional items before interest and tax amounted to a net charge of £24.1 million. This amount is analysed in note 3 to the accounts. The main items are charges of £14.4 million and £5.9 million for transaction and reorganisation costs, respectively, associated with the demerger of the Pubs & Bars division.

Interest

The net interest charge fell by £12.2 million to £37.1 million. This reduction reflects a lower level of net debt and lower interest rates this year. Net interest was covered 4.7 times by operating profit before exceptional items. The weighted average rate of interest on fixed rate sterling debt at the period end was 7.0%. Of the net sterling debt at the period end, 47% was at fixed rates of interest.

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 full year. The charge against profit before exceptional items for the period of £45.1 million represents an underlying rate of 33.2%. The charge includes deferred tax, as described under 'Accounting Policies' above and in note 1. The tax charge for 2000/1 has been restated to reflect the adoption of FRS 19.

Earnings per share

As explained in note 11 to the accounts, a 3 for 5 share capital consolidation was implemented at the time of the Pubs & Bars demerger. This reflected the value returned to shareholders by the demerger. Adjusted earnings per share, calculated on the weighted average number of shares in issue during the period, increased by 3.0% to 25.77 pence.

Dividend per share

The Chairman's Statement in the last annual report indicated the board's intention to adopt a new dividend policy after the disposal of Pubs & Bars and the reduction in share capital. The intention is to pay dividends of approximately 40% of profits

Net asset value per share at the period end was £6.44.

after tax for future Whitbread, giving a dividend cover of some 2.5 times. An interim dividend of 5.05 pence per share will be paid on 8 January 2002 to all shareholders on the share register at the close of business on 9 November 2001.

Cash flow
Net cash inflow from Operating activities was £180 million. This is in line with the level expected following the transactions described earlier.

Investment in property and plant was £156 million, compared with £170 million in the previous first half.

Cash inflow before financing was £296 million. The underlying cash outflow (after adjusting for the £462 million cash inflow from the demerger of Pubs & Bars and businesses sold and for an outflow in respect of expenditure on new retail outlets of £86 million) was £80 million. The underlying cash flow for this period reflects this year's lower operating profit from a smaller business whereas the dividend and tax payments relate to last year's profits from a larger business.

Net debt
Net debt at the end of the period amounted to £992 million, resulting in a balance sheet gearing ratio of 52%.

Net asset value
Net asset value per share at the period end was £6.44.

Post balance sheet event
Since the balance sheet date, we have announced the intention to sell in due course a number of smaller restaurant brands including Bella Pasta, Café Rouge, Abbaye and Mamma Amalfi. The book value of the net assets of these businesses in the group accounts as at 1 September 2001 amounted to £50 million.

Group profit and loss account
Six months to 1 September 2001

Notes		6 months to 1.9.2001 Before exceptional items £m	6 months to 1.9.2001 Exceptional items (note 3) £m	6 months to 1.9.2001 Total £m	6 months to 2.9.2000 (restated) Before exceptional items £m	6 months to 2.9.2000 (restated) After exceptional items £m	2000/1 (restated) After exceptional items £m
	Turnover						
	Continuing operations	**1,014.9**	**–**	**1,014.9**	1,424.3	1,424.3	2,417.5
	Discontinued operations	**126.0**	**–**	**126.0**	341.3	341.3	677.7
	Group and share of joint ventures	**1,140.9**	**–**	**1,140.9**	1,765.6	1,765.6	3,095.2
	Less share of joint ventures' turnover	**(70.4)**	**–**	**(70.4)**	(360.6)	(360.6)	(500.6)
2	Group turnover	**1,070.5**	**–**	**1,070.5**	1,405.0	1,405.0	2,594.6
	Group operating profit	**154.7**	**–**	**154.7**	219.2	215.9	401.8
	Share of operating profit in:						
	Joint ventures	**5.0**	**–**	**5.0**	3.0	2.1	9.1
	Associates	**12.3**	**–**	**12.3**	9.0	9.0	13.8
	Continuing operations	**141.5**	**–**	**141.5**	143.2	141.9	250.6
	Discontinued operations	**30.5**	**–**	**30.5**	88.0	85.1	174.1
2	Operating profit of the group, joint ventures and associates	**172.0**	**–**	**172.0**	231.2	227.0	424.7
	Non-operating items						
	Net profit/(loss) on disposal of fixed assets	**–**	**(0.1)**	**(0.1)**	–	2.8	(4.3)
9	Net loss on the disposal of businesses	**–**	**(3.7)**	**(3.7)**	–	(18.8)	(8.8)
	Fundamental reorganisation costs	**–**	**(20.3)**	**(20.3)**	–	–	(26.0)
	Profit before interest	**172.0**	**(24.1)**	**147.9**	231.2	211.0	385.6
4	Interest	**(36.3)**	**(0.8)**	**(37.1)**	(49.3)	(49.3)	(93.7)
	Profit before taxation	**135.7**	**(24.9)**	**110.8**	181.9	161.7	291.9
5	Taxation	**(45.1)**	**1.5**	**(43.6)**	(61.9)	(66.0)	(107.8)
	Profit after taxation	**90.6**	**(23.4)**	**67.2**	120.0	95.7	184.1
	Non equity minority interests	**(0.1)**	**–**	**(0.1)**	(0.1)	(0.1)	(0.1)
	Profit earned for ordinary shareholders	**90.5**	**(23.4)**	**67.1**	119.9	95.6	184.0
	Ordinary dividend	**(15.0)**	**–**	**(15.0)**	(40.1)	(40.1)	(153.1)
	Retained profit for the period	**75.5**	**(23.4)**	**52.1**	79.8	55.5	30.9
	Dividends per share (pence)						
	Interim			**5.05**		8.05	8.05
	Final						23.10
6	**Earnings per share (pence)**						
	Basic			**18.24**		19.25	37.18
	Adjusted basic	**25.77**			25.01		47.85
	Diluted			**18.17**		19.24	37.16
	Adjusted diluted	**25.67**			24.99		47.82

Statement of total recognised gains and losses
Six months to 1 September 2001

	6 months to 1.9.2001 £m	6 months to 2.9.2000 (restated) £m	2000/1 (restated) £m
Profit earned for ordinary shareholders			
Group excluding joint ventures and associates	**56.3**	88.8	170.0
Joint ventures	**3.3**	1.1	5.0
Associates	**7.5**	5.7	9.0
Group including joint ventures and associates	**67.1**	95.6	184.0
Currency translation differences on net foreign investment	**(1.8)**	(0.2)	1.5
	65.3	95.4	185.5
Prior year adjustment arising from the implementation of FRS 19	**(158.0)**	–	–
Total gains and losses recognised since previous year end	**(92.7)**	95.4	185.5

Movements in shareholders' funds

	1.9.2001 £m	2.9.2000 (restated) £m	3.3.2001 (restated) £m
Opening equity shareholders' funds – as reported	**2,645.7**	2,536.3	2,536.3
Prior year adjustment on the implementation of FRS 19	**(158.0)**	(144.4)	(144.4)
Opening equity shareholders' funds – restated	**2,487.7**	2,391.9	2,391.9
Profit earned for ordinary shareholders	**67.1**	95.6	184.0
Dividends	**(15.0)**	(40.1)	(153.1)
	52.1	55.5	30.9
Other recognised gains and losses relating to the period	**(1.8)**	(0.2)	1.5
Goodwill on disposal	**–**	71.5	95.6
Share capital issued	**5.3**	5.3	10.4
Share capital repurchased	**–**	–	(42.6)
Value of Pubs & Bars demerger	**(1,611.6)**		
Gain over book value	**487.1**		
Gross assets demerged from group	**(1,124.5)**		
Value of debt demerged	**482.5**		
Net assets demerged	**(642.0)**	–	–
Closing equity shareholders' funds	**1,901.3**	2,524.0	2,487.7

Cash flow statement
Six months to 1 September 2001

Notes		6 months to 1.9.2001 £m		6 months to 2.9.2000 £m		2000/1 £m	
7	**Cash inflow from operating activities**		**180.2**		181.3		492.3
	Dividends received from joint ventures and associates		**0.2**		–		3.5
	Returns on investments and servicing of finance						
	Interest received	**1.3**		0.9		2.0	
	Interest paid	**(36.7)**		(51.0)		(94.9)	
	Debt issue costs	**–**		–		(5.3)	
	Loan interest received	**0.5**		0.7		1.3	
	Preference dividends paid	**–**		(0.1)		–	
	Net cash outflow from returns on investments and servicing of finance		**(34.9)**		(49.5)		(96.9)
	Taxation						
	UK Corporation Tax paid		**(36.7)**		(25.9)		(92.9)
	Capital expenditure and financial investment						
	Property and plant purchased	**(155.8)**		(170.5)		(331.9)	
	Investments purchased and loans advanced	**(7.9)**		(6.2)		(6.7)	
	Property and plant sold	**1.7**		122.8		130.8	
	Investments sold and loans realised	**–**		15.4		22.1	
	Net cash outflow from capital expenditure and financial investment		**(162.0)**		(38.5)		(185.7)
	Acquisitions and disposals						
8	New businesses acquired	**–**		(11.3)		(11.0)	
9	Businesses sold	**1.0**		389.0		500.3	
10	Business demerged	**461.1**		–		–	
	Net cash inflow from acquisitions and disposals		**462.1**		377.7		489.3
	Equity dividends paid		**(113.3)**		(108.5)		(148.2)
	Net cash inflow before use of liquid resources and financing		**295.6**		336.6		461.4
	Management of liquid resources						
13	Net movement on short term securities and bank deposits		**0.2**		0.1		0.8
	Financing						
	Minority dividends	**–**		–		(0.1)	
	Issue of shares	**5.3**		1.1		6.2	
	Repurchase of shares	**–**		–		(42.6)	
13	Net movement on short term bank borrowings	**(8.3)**		(19.6)		(28.0)	
13	Loan capital issued	**2.5**		310.0		285.0	
13	Loan capital repaid*	**(278.2)**		(651.4)		(669.5)	
	Net cash outflow from financing		**(278.7)**		(359.9)		(449.0)
13	**Increase/(decrease) in cash**		**17.1**		(23.2)		13.2

*The net of receipts and payments on revolving credits is included in loan capital repaid.

Balance sheet
1 September 2001

Notes		1.9.2001 £m	2.9.2000 (restated) £m	3.3.2001 (restated) £m
	Fixed assets			
	Intangible assets	**154.1**	165.1	159.2
	Tangible assets	**3,022.6**	4,032.0	4,138.1
	Investments			
	In joint ventures			
	Share of gross assets	**70.6**	236.3	69.2
	Share of gross liabilities	**(28.8)**	(120.1)	(28.3)
		41.8	116.2	40.9
	In associates	**60.3**	55.8	53.0
	Other investments	**8.6**	2.9	2.4
		3,287.4	4,372.0	4,393.6
	Current assets and liabilities			
	Stocks	**28.9**	32.8	36.1
	Debtors	**169.2**	236.1	165.9
	Cash at bank and in hand	**110.1**	160.6	66.9
		308.2	429.5	268.9
	Creditors – amounts falling due within one year	**(534.3)**	(774.8)	(689.9)
	Net current liabilities	**(226.1)**	(345.3)	(421.0)
	Total assets less current liabilities	**3,061.3**	4,026.7	3,972.6
	Creditors – amounts falling due after more than one year			
	Loan capital	**(998.3)**	(1,310.2)	(1,272.6)
	Provisions for liabilities and charges	**(156.3)**	(187.1)	(207.0)
		1,906.7	2,529.4	2,493.0
	Capital and reserves			
11	Called up share capital	**147.6**	2,239.2	2,207.8
11	Share premium account	**3.7**	–	–
12	Revaluation reserve	**138.7**	622.2	621.5
12	Other non-distributable reserves	**(1,820.6)**	(1,926.7)	(1,830.5)
12	Profit and loss account	**3,431.9**	1,589.3	1,488.9
	Shareholders' funds	**1,901.3**	2,524.0	2,487.7
	Equity minority interests	**2.3**	2.3	2.2
	Non-equity minority interests	**3.1**	3.1	3.1
		1,906.7	2,529.4	2,493.0

1 Basis of preparation of accounts

The interim accounts were approved by the board on 29 October 2001. They have been prepared on the basis of the accounting policies set out in the 2000/1 group accounts, except in respect of deferred tax as set out below. The taxation charge on profit before exceptional items for the interim period has been calculated by applying the forecast effective tax rate for the full year.

The balance sheet as at 3 March 2001 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.

FRS 18 (Accounting Policies) has been adopted in the current period. It has had no effect on the published numbers.

FRS 19 (Deferred Tax) has been adopted in the current period. The comparative amounts have been restated to comply with the new standard. Its effect on the profit and loss account is to increase the taxation charge for the Group by £11.0m (2000 – decrease the taxation charge by £0.9m, 2000/1 – increase the taxation charge by £13.2m). The balance sheet effect is to increase provisions in central services by £137.7m (2000 – £151.3m, 2000/1 – £165.4m) and to increase goodwill in Marriott/Swallow hotels by £7.2m (2000 – £7.6m, 2000/1 – £7.4m). Provisions for deferred tax have not been calculated on a discounted basis.

2 Segmental analysis of turnover, profit and net assets

Six months to 1 September 2001	**Turnover £m**	**EBITDA# £m**	**Operating profit† £m**	**Net assets £m**
By business segment				
Hotels – Marriott/Swallow	203.7	63.2	42.4	1,243.2
– Travel Inns	87.9	38.7	31.5	448.6
	291.6	101.9	73.9	1,691.8
Restaurants – pub restaurants	299.1	58.0	44.2	802.6
– high street restaurants	237.1	11.7	3.1	168.4
	536.2	69.7	47.3	971.0
Sports, health and fitness	80.4	25.5	16.0	441.7
	908.2	197.1	137.2	3,104.5
Pubs & Bars – managed	99.5	21.1	16.2	(4.0)
– leased	26.5	14.9	14.3	(0.6)
Beer and other drinks	38.6	11.3	11.3	56.1
Segmental turnover, profit and net assets	1,072.8	244.4	179.0	3,156.0
Share of joint ventures' turnover	(70.4)			
Central services	68.1	(5.0)	(7.0)	(257.0)
	1,070.5	239.4	172.0	2,899.0
By geographical segment				
United Kingdom	1,036.4	237.0	171.3	2,862.4
Rest of the world	34.1	2.4	0.7	36.6
	1,070.5	239.4	172.0	2,899.0

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

Six months to 2 September 2000 (restated)	Turnover £m	EBITDA# £m	Operating profit† £m	Net assets £m
By business segment				
Hotels – Marriott/Swallow	200.1	58.3	40.1	1,164.6
– Travel Inns	80.4	35.5	28.8	397.8
	280.5	93.8	68.9	1,562.4
Restaurants – pub restaurants	281.9	54.4	40.2	784.2
– high street restaurants	219.6	10.2	2.6	155.7
	501.5	64.6	42.8	939.9
Sports, health and fitness	66.2	21.7	12.9	416.2
	848.2	180.1	124.6	2,918.5
Pubs & Bars – managed	266.5	65.8	51.6	781.8
– leased	74.8	38.1	36.4	387.4
Beer and other drinks	588.1	29.8	21.2	129.2
Acquired businesses for disposal*	16.1	2.6	2.6	7.2
Segmental turnover, profit and net assets	1,793.7	316.4	236.4	4,224.1
Inter-segment turnover (see note below)	(63.7)			
Share of joint ventures' turnover	(360.6)			
Central services	35.6	(2.1)	(5.2)	(315.7)
Exceptional items (note 3)	–	(4.2)	(4.2)	–
	1,405.0	310.1	227.0	3,908.4
By geographical segment				
United Kingdom	1,371.5	307.5	226.1	3,889.0
Rest of the world	33.5	2.6	0.9	19.4
	1,405.0	310.1	227.0	3,908.4

#EBITDA is earnings before interest, tax, depreciation and amortisation.
†Operating profit is stated after charging the amortisation of goodwill as follows:

	6 months to 1.9.2001 £m	6 months to 2.9.2000 £m
Hotels	**4.1**	4.1
Sports, health and fitness	**0.2**	0.2

*The acquired business for disposal related mainly to the pubs business acquired with the Swallow Group which was sold on 7 June 2000.

Following the sale of the Whitbread Beer Company there remains a continuing activity within the beer and other drinks segment. This is as a result of the terms of the sale of the Whitbread Beer Company to Interbrew which included arrangements for Whitbread to retain the people and the necessary production capacity to ensure compliance with its obligations for the remaining period of the Heineken and Murphy licences.

Segmental turnover for high street restaurants includes the group's share of joint venture turnover amounting to £69.0m (2000 – £59.9m), hotels includes £1.4m (2000 – £1.2m) and beer and other drinks includes £nil (2000 – £299.5m). Inter-segment turnover is from beer and other drinks to the other segments. Central services turnover comprises, primarily, food distribution services provided to a joint venture and an external customer. The geographical analysis of turnover and profit is by source. The analysis of turnover by destination is not materially different. Sales between geographical segments are not material. Net assets included above are total net assets excluding net debt. Following the introduction of FRS 19 all taxation liabilities are now included within the net assets of central services. The comparatives have been restated accordingly.

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

The exceptional costs are detailed in note 3. The analysis of operating exceptional costs is as follows:

	6 months to 1.9.2001 £m	6 months to 2.9.2000 £m
Pubs & Bars and Restaurants*	**–**	(2.9)
Beer and other drinks	**–**	(0.9)
Central services	**–**	(0.4)
	–	(4.2)

*These costs relate to the restructuring of these businesses into the new divisions of Pubs & Bars and Restaurants. This was a combined project and there was no suitable basis for allocating the costs to individual divisions.

3 Exceptional items

	6 months to 1.9.2001 £m	6 months to 2.9.2000 £m	2000/1 £m
Restructuring/rationalisation costs			
Group excluding joint ventures and associates	**–**	(3.3)	(2.2)
Joint venture reorganisation costs	**–**	(0.9)	(0.9)
Charged against operating profit	**–**	(4.2)	(3.1)
Non-operating items			
Net profit/(loss) on disposal of fixed assets			
Group excluding joint ventures and associates	**0.2**	2.3	(5.0)
Joint ventures	**–**	0.4	0.2
Associates	**(0.3)**	0.1	0.5
Net loss on the disposal of businesses (note 9)	**(3.7)**	(18.8)	(8.8)
Fundamental reorganisation costs			
Demerger of Pubs & Bars – transaction costs	**(14.4)**	–	(11.0)
Reorganisation costs	**(5.9)**	–	(15.0)
	(24.1)	(20.2)	(42.2)

The transaction costs are principally advisers' fees and legal costs. The fundamental reorganisation costs relate to the demerger of Pubs & Bars in May 2001 and the sale of the Whitbread Beer Company in May 2000.

4 Interest

	6 months to 1.9.2001 £m	6 months to 2.9.2000 £m	2000/1 £m
Interest payable	**38.4**	50.0	96.7
Interest receivable	**(1.7)**	(1.3)	(3.2)
Interest capitalised	**(1.5)**	(1.7)	(3.4)
	35.2	47.0	90.1
Interest payable by:			
Joint ventures	**0.3**	1.1	1.5
Associates	**0.8**	1.2	1.8
Exceptional interest payable*	**0.8**	–	0.3
	37.1	49.3	93.7

*The exceptional interest payable represents refinancing costs associated with the demerger of Pubs & Bars.

5 Taxation

	6 months to 1.9.2001 £m	6 months to 2.9.2000 (restated) £m	2000/1 (restated) £m
Current taxation on profits for the period before exceptional items			
UK Corporation Tax	**30.2**	47.6	82.8
Adjustments to earlier periods			
UK Corporation Tax	**(1.2)**	(2.8)	(11.0)
	29.0	44.8	71.8
Joint ventures	**1.4**	0.3	2.8
Associates	**3.7**	2.2	3.5
Overseas tax	**–**	0.4	–
Current tax on operating exceptional items			
Group	**–**	–	(0.4)
Current tax on non-operating exceptional items			
Group	**(1.5)**	19.2	16.9
Deferred tax			
Timing differences	**11.0**	14.2	28.3
Deferred tax on non-operating exceptional items			
Group	**–**	(15.1)	(15.1)
	43.6	66.0	107.8

6 Earnings per share

Basic earnings per share is calculated by dividing earnings for ordinary shareholders of £67.1m (2000 – £95.6m) by the weighted average number of ordinary shares in issue during the period, 367.9m (2000 – 496.6m). Adjusted basic earnings per share is calculated as follows:

	Earnings (£m)			Earnings per share (p)		
	6 months to 1.9.2001	6 months to 2.9.2000 (restated)	2000/1 (restated)	**6 months to 1.9.2001**	6 months to 2.9.2000 (restated)	2000/1 (restated)
Earnings and basic earnings per share	**67.1**	95.6	184.0	**18.24**	19.25	37.18
Earnings and basic earnings per share attributable to:						
Goodwill amortisation	**4.3**	4.3	8.5	**1.17**	0.87	1.72
Exceptional items, net of tax	**23.4**	24.3	44.3	**6.36**	4.89	8.95
Adjusted earnings and basic earnings per share	**94.8**	124.2	236.8	**25.77**	25.01	47.85

Earnings includes a number of exceptional items. 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 369.3m (2000 – 497.0m).

7 Net cash inflow from operating activities

	6 months to 1.9.2001 £m	6 months to 2.9.2000 (restated) £m	2000/1 (restated) £m
Group operating profit	**154.7**	215.9	401.8
Investment income	**–**	(0.1)	(0.1)
Depreciation/amortisation	**67.4**	83.1	157.5
Payments against provisions	**(17.0)**	(8.1)	(29.4)
Other non-cash items	**(3.6)**	2.1	5.4
Increase in stocks	**(1.2)**	(9.4)	(12.6)
Increase in debtors	**(35.7)**	(171.6)	(109.0)
Increase in creditors	**15.6**	69.4	78.7
Cash inflow from operating activities	**180.2**	181.3	492.3

8 Acquisitions

	6 months to 1.9.2001 £m	6 months to 2.9.2000 £m	2000/1 £m
Cash outflow in respect of new businesses acquired			
Payments in respect of previous years' acquisitions	**–**	11.3	11.0

9 Disposals

	6 months to 1.9.2001 £m
Fixed assets	4.1
Net working capital, excluding cash and overdraft	(0.2)
Cash and overdraft	0.1
Carrying value of net assets	4.0
Gross sale proceeds	1.5
Less costs	(1.2)
Net sale proceeds	0.3
Loss on disposal	(3.7)
Net sale proceeds	0.3
Accrued costs	0.7
Cash inflow	1.0

10 Demerger of Pubs & Bars division

	6 months to 1.9.2001 £m
Fixed assets	1,194.3
Investments	0.4
Net working capital, excluding cash and overdraft	(31.5)
Deferred tax provision	(38.7)
Gross assets demerged from group	1,124.5
Net cash received	(482.5)
Net assets demerged	642.0
Net cash received	482.5
Total transaction costs	(25.4)
Less – paid in prior year	3.8
– accrued costs	0.2
Transaction costs paid in current period	(21.4)
Cash inflow from demerger	461.1

11 Share capital

	Authorised			Allotted, called up and fully paid		
	1.9.2001 £m	2.9.2000 £m	3.3.2001 £m	**1.9.2001 £m**	2.9.2000 £m	3.3.2001 £m
Equity share capital						
Ordinary shares of 50 pence each#	**4,725.0**	4,725.0	4,725.0	**147.6**	2,239.2	2,207.8
Ordinary shares in issue (m)				**295.2**	497.6	490.6

Ordinary shares	**Share capital £m**	**Share premium £m**
3 March 2001	**2,207.8**	**–**
Movements during the period:		
Reduction of capital under the arrangement to demerge the Pubs & Bars division*	**(2,062.0)**	**–**
Issued to employees by exercise of options	**1.8**	**3.7**
1 September 2001	**147.6**	**3.7**

*On 10 May 2001 the Pubs & Bars division was demerged from Whitbread PLC by means of a reduction of capital under section 135 of the Companies Act 1985. Whitbread PLC then implemented a 3 for 5 share capital consolidation, reducing the number of shares by 40%. This reduction reflected the value returned to shareholders by the demerger as an approximate proportion of Whitbread PLC's market value. Following the capital reduction and share consolidation the nominal value of each Whitbread PLC share is 50 pence.

#In accordance with merger accounting principles, the shares issued in connection with the scheme of arrangement to acquire Whitbread Group PLC, as adjusted to reflect the issue of options and repurchase of shares, have been treated as if issued throughout the corresponding year.

At 1 September 2001 there were outstanding options for employees to purchase up to 9.5m (2000 – 14.0m) ordinary shares. During the six months to 1 September 2001 options on 0.6m (2000 – 2.0m) ordinary shares were exercised by employees under the terms of various share option schemes.

12 Reserves

	Revaluation reserve £m	Other reserves £m	Profit and loss account £m	Joint ventures and associates £m	Total £m
3 March 2001 – as reported	**621.5**	**(1,855.0)**	**1,646.9**	**24.5**	**437.9**
Prior year adjustment resulting from the implementation of FRS 19	**–**	**–**	**(158.0)**	**–**	**(158.0)**
3 March 2001 – restated	**621.5**	**(1,855.0)**	**1,488.9**	**24.5**	**279.9**
Currency translation differences	**–**	**–**	**(1.8)**	**–**	**(1.8)**
Profit retained	**–**	**–**	**42.2**	**9.9**	**52.1**
Pubs & Bars division demerger					
– Value of demerger			**(1,611.6)**		**(1,611.6)**
– Gain over book value			**487.1**		**487.1**
– Gross assets demerged from group			**(1,124.5)**		**(1,124.5)**
– Value of debt demerged			**482.5**		**482.5**
Net assets demerged	**–**	**–**	**(642.0)**	**–**	**(642.0)**
Revaluation surplus transferred to the profit and loss account on the demerger of the Pubs & Bars division	**(483.1)**	**–**	**483.1**	**–**	**–**
Capital reduction following the demerger of the Pubs & Bars division	**–**	**–**	**2,062.0**	**–**	**2,062.0**
Discount on shares issued to employees under share option schemes, less tax	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Realised revaluation deficit transferred to the profit and loss account	**0.3**	**–**	**(0.3)**	**–**	**–**
1 September 2001	**138.7**	**(1,855.0)**	**3,431.9**	**34.4**	**1,750.0**
2 September 2000	622.2	(1,892.2)	1,589.3	(34.5)	284.8

Goodwill	£m
Net amount written off against reserves to 3 March 2001	**488.4**
Demerger of Pubs & Bars	**(38.9)**
Net amount written off against reserves to 1 September 2001	**449.5**

13 Reconciliation of net cash flow to movement in net debt

	6 months to 1.9.2001 £m	6 months to 2.9.2000 £m	2000/1 £m
Increase/(decrease) in cash in the period	**17.1**	(23.2)	13.2
Cash outflow from movement in loan capital	**275.7**	341.4	389.8*
Cash inflow from movement in liquid resources	**(0.2)**	(0.1)	(0.8)
Cash outflow from movement in short term borrowings	**8.3**	19.6	28.0
Changes in net debt resulting from cash flows	**300.9**	337.7	430.2
Foreign exchange movements	**(1.2)**	(1.2)	(1.1)
Amortisation of premiums and discounts	**(0.7)**	5.7	0.8
Movement in net debt in the period	**299.0**	342.2	429.9
Opening net debt	**(1,291.3)**	(1,721.2)	(1,721.2)
Closing net debt	**(992.3)**	(1,379.0)	(1,291.3)

*Includes £5.3m debt issue costs.

14 Post balance sheet events

Since the balance sheet date the intention to sell, in due course, a number of smaller restaurant brands, including Bella Pasta, Café Rouge, Abbaye and Mamma Amalfi, has been announced. The book value of the assets of these businesses in the group accounts at 1 September 2001 amounted to £50m.

Introduction

We have been instructed by the company to review the financial information for the 6 months ended 1 September 2001 which comprises Profit and Loss Account, Balance Sheet, Cash Flow Statement, Statement of Total Recognised Gains and Losses and the related notes 1 to 14. 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.

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 guidance contained in Bulletin 1999/4 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 1 September 2001.

Ernst & Young LLP
London
29 October 2001

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.

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

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 the 10 May for these purposes was 606.5p and the market value of each Fairbar share was 230p.

Financial diary

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 2002

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Whitbread
CityPoint
One Ropemaker Street
London
EC2Y 9HX

www.whitbread.co.uk