



Whitbread PLC

Annual report and accounts 2013/14

Interactive PDF

User guide

This PDF allows you to find information and navigate around this document more easily.

Links in this PDF

Words and numbers that are underlined are links - clicking on them will take you to further information within the document or to a web page (which opens in a new window) if they are a url (e.g www.whitbread.co.uk).

Guide to buttons

-  Back to user guide
-  Search this PDF
-  Print options
-  Preceding page
-  Next page
-  Last visited page

WHITBREAD PLC

Annual Report and Accounts 2013/14

“Making everyday experiences special”





Financial highlights

Whitbread has delivered another year of strong double-digit growth in sales, profit and dividend.

[More on our financial performance](#)

p4 Chairman's statement
p6 Chief Executive's review
p38 Finance Director's review

Total revenue

£2,294.3m **+13.0%**

2013/14	£2,294.3m
2012/13	£2,030.0m
2011/12	£1,778.0m
2010/11	£1,599.6m

Underlying basic EPS²

179.02p **+20.1%**

2013/14	179.02p
2012/13	149.10p ¹
2011/12	133.60p ¹
2010/11	116.01p ¹

Underlying profit² before tax

£411.8m **+16.5%**

2013/14	£411.8m
2012/13	£353.4m ¹
2011/12	£318.3m ¹
2010/11	£285.7m ¹

Full-year dividend

68.80p **+19.9%**

2013/14	68.80p
2012/13	57.40p
2011/12	51.25p
2010/11	44.50p

Group return on capital³

13.9%¹ to 15.3%

Cash flow from operations⁴

£526.0m to £601.3m

Net debt

£471.1m to £391.6m

Group like for like sales

Up 4.2%

¹ Restated for the impact of IAS 19 (revised 2011). See Note 2 of the consolidated financial statements for 2012/13.

² Underlying profit excluding amortisation of acquired intangibles, exceptional items and the impact of the pension finance cost as accounted for under IAS 19. Underlying EPS represents the earnings per share based on the above underlying profit definition and the tax thereon.

³ Return on capital is the return on invested capital which is calculated by dividing the underlying profit before interest and tax for the year by net assets at the balance sheet date adding back debt, taxation liabilities and the pension deficit.

⁴ Cash generated from operations in the financial statements excluding the pension payments.

An interactive PDF of our Report and Accounts is available to download online.

www.whitbread.co.uk/investors



Whitbread is all about people. As the UK's leading hospitality company, our success is thanks to 43,000 motivated and engaged team members delivering outstanding service to 22 million customers every month across our hotels, coffee shops and restaurants.

We use this simple model, which we call The Whitbread Way, to describe our business philosophy.



- 📖 More on Winning Teams on p12 and p22
- 📖 More on Customer Heartbeat on p14 and p24
- 📖 More on Profitable Growth on p17 and p27
- 📖 More on Good Together on p9, p19 and p29

Our vision is to grow legendary brands by building a strong Customer Heartbeat and innovating to stay ahead. It's our Winning Teams that make everyday experiences special for our customers so they come back time and again, driving Profitable Growth. Our Good Together programme makes us a force for good in our communities.

Contents

Overview

- Financial highlights
- 1 Introduction
- 2 Group at a glance
- 4 Chairman's statement

Strategic report

- 6 Chief Executive's review
- 8 Our business model: The Whitbread Way
- 9 Good Together
- 10 Hotels & Restaurants
- 20 Costa
- 30 Risk management
- 34 Key Performance Indicators
- 38 Finance Director's review
- 42 HR Director's report

Governance

- 44 Corporate governance
- 46 Board of Directors
- 53 Audit Committee report
- 56 Nomination Committee report
- 58 Remuneration report
- 77 Directors' report

Consolidated accounts 2013/14

- 84 Directors' responsibility statement
- 85 Independent auditor's report
- 88 Consolidated financial statements
- 93 Notes to the consolidated financial statements

Company accounts 2013/14

- 136 Directors' responsibility statement
- 137 Independent auditor's report
- 138 Balance sheet
- 139 Notes to the accounts

Shareholder information

- 144 Shareholder services
- 146 Glossary
- 148 Our charities

Group at a glance

The Group

Whitbread

Whitbread has built some of the UK's most successful hospitality brands including Premier Inn and Costa. We employ over 43,000 people in the UK and serve 22 million customers every month. Our strategy is to grow our leading brands with a clear focus on returns to deliver substantial shareholder value.

We've set our sights on ambitious and fast-paced profitable growth and last year announced new growth milestones. By 2018 we plan to increase the size of Premier Inn to around 75,000 UK rooms and the system sales of Costa to around £2 billion.

Our businesses share common values and a clear vision on responsibility. We have demonstrated our ability to build strong brands through the consistent delivery of operational excellence and a great customer experience in people-intensive businesses.

Listed on the London Stock Exchange, Whitbread PLC is a member of the FTSE 100 and the FTSE4Good indices.

Our businesses

Hotels & Restaurants

More on p10 to p19

Premier Inn is the UK's leading hotel business, with over 670 hotels and more than 55,000 rooms across the UK.

We have more rooms in more locations than our competitors, which allows our customers to stay closer to where they want to be.

We offer our customers a 100% money-back guarantee of a good night's sleep with a quality room, comfortable surroundings and friendly service. We call it our Good Night Guarantee.

All Premier Inn UK bedrooms have an ensuite bathroom, TV with Freeview and Wi-Fi internet access. All our hotels have a bar and restaurant, either inside the building or next to it, offering a wide range of dishes. Whitbread's unique joint site model means that 377 of these hotels are located alongside our own restaurant brands: Beefeater; Brewers Fayre; Table Table; and Taybarns. A further 149 hotels include one of our Thyme restaurants.

Internationally, we have five hotels in the Middle East and three in India with more in the pipeline.

For the Hotels & Restaurants Investor Day presentations please see www.whitbread.co.uk/investordays





Premier Inn is the UK's leading hotel business.

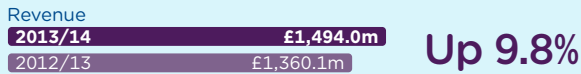


Costa was again voted the UK's favourite coffee shop.

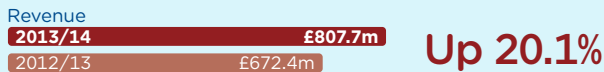
More on p38

Revenue by business

Hotels & Restaurants



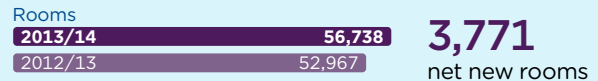
Costa



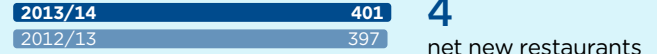
More on p17 and p27

Growth

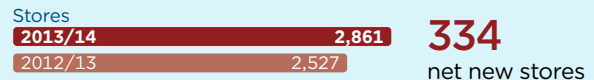
Premier Inn



Restaurants



Costa



Costa

More on p20 to p29

Costa, voted the UK's favourite coffee shop, has grown significantly over the past five years and now has 1,755 coffee shops in the UK and 1,106 overseas.

Only 1% of the world's coffee beans are good enough to create the unique taste and aroma of our Costa Mocha Italia blend. Almost all the coffee we serve in the UK, and most of that served in the rest of the world, is roasted at our Lambeth roastery.

Costa is an international brand represented in 30 countries. It has a multi-channel strategy, with equity stores, franchise stores and stores operated by joint ventures, as well as a wholesale operation. Costa Express now has over 3,500 self-service machines.

For the Costa Investor Day presentations please see www.whitbread.co.uk/investordays



Chairman's statement



Anthony Habgood
Chairman

This is another set of good results. Once again strong cash flow funded the necessary capital investment for our growth engines, Premier Inn and Costa, to increase their share of the market. We have recommended an increase in the full-year dividend by 19.9% while maintaining debt at a prudent level. I am confident that the brand strength of Premier Inn and Costa will continue to fuel the Company's growth into the future.

Whitbread continues to evolve in a fast changing trading and economic environment. Premier Inn has, for example, responded to the growing competitive presence of online travel agents by significantly increasing its digital capability and resources. It has also announced the launch of 'hub by Premier Inn' which is a new city centre focused hotel concept. Costa is consistently looking to find new ways of ensuring that its customers are never far from a cup of Costa Coffee – for example through new distribution channels such as drive-thru and a new generation of Costa Express machine. Our restaurants have also been updating their brand propositions. This focus on innovation is essential for a modern company to prosper.

Dividend

The Board recommends a final dividend of 47.00p per share, making a total dividend of 68.80p per share, up by 19.9%. The final dividend will be paid on 4 July 2014 to shareholders on the register at the close of business on 30 May 2014. The Scrip Dividend Scheme, which was introduced in 2009, has been closed. It has been replaced by a new Dividend Reinvestment Plan, which will not have the effect of diluting shareholdings. Further information on how to participate in this new plan can be found on the Company's website.

Full-year dividend

2013/14	68.80p
2012/13	57.40p
2011/12	51.25p
2010/11	44.50p



Premier Inn has gone from strength to strength.



Costa has grown into an international brand present in 30 countries.

Board

In December 2013, we announced that Susan Hooper would be stepping down from her position as a non-executive director of the Company so that she could focus her attention on her new role at British Gas. I would like to thank Susan for her contribution to the Board over the last two years and wish her well in her new role.

We also announced changes to the roles and responsibilities of two of our other non-executive directors. Sir Ian Cheshire became Senior Independent Director with effect from 1 January 2014, taking over from Stephen Williams who had fulfilled that role since March 2008. Stephen took over from Sir Ian as Chairman of the Remuneration Committee with effect from the same date.

Nine fascinating years of transformation and focused growth

This is the final Annual Report during my tenure as Chairman of Whitbread. It has been a privilege to lead the Board during nine exciting and transformational years for the Company.

When I joined Whitbread in 2005, the Group had a collection of brands including, among others, David Lloyd Leisure, T.G.I. Friday's and Pizza Hut. Premier Travel Inn, as it was called then, had 28,400 UK rooms with no international presence and represented 15% of Whitbread sales. Nine years on, Premier Inn has 55,035 rooms in the UK and Ireland, with hotels also in India, Dubai and Abu Dhabi. Premier Inn's sales have grown at over 13% per annum and now represent 42% of Whitbread revenues. It is the country's leading hotel brand. Costa, which had 426 stores in 2005 and represented 6% of Whitbread sales, has grown into an international brand with 2,861 stores in 30 countries. Its sales have grown at 23% a year and represent 38% of Whitbread's revenues. It is now the UK's leading coffee shop brand. Meanwhile we have focused our Restaurants business onto those sharing a site with a Premier Inn and we have almost doubled the number of these joint sites over the period.

This transformation has been achieved in a period that included the worst recession in living memory and has delivered significant value to our shareholders. The share price when I joined the Company in 2005 was £8.54 and we had delivered underlying basic EPS of 61.25p. At the time of writing the share price is £40.46 and our EPS for 2013/14 was 179.02p.

In addition, I am immensely proud of the achievements of our Good Together programme. From a standing start five years ago, we are now fully engaged in many major and highly relevant areas to the business. These range from, for example, our leading apprenticeship programme to the highly successful school building programme in coffee-growing areas through the Costa Foundation. We are making a real difference.

None of this could have been achieved without the dedication and professionalism of thousands of members of the Whitbread team. I would like to take this opportunity to thank not just the 43,000 people currently working at Whitbread, but also thousands more that have contributed to this Company's success during my time as Chairman.

Finally, on a personal note, I would like to thank my colleagues on the Board and in management for their support and wish Andy and his team every success as they lead the next phase of Whitbread's development.

Anthony Habgood

Chairman
28 April 2014

Chief Executive's review



Andy Harrison
Chief Executive

2013/14 was another record year for Whitbread, delivering excellent results for all our stakeholders: our customers; our people; the communities in which we work; and of course our shareholders.

Strategy

Our strategy focuses on strengthening and growing our leading brands, Premier Inn and Costa. We have set ambitious growth milestones for 2018 to increase the number of Premier Inn rooms from 55,000 in the UK today to around 75,000 and to reach around 10,000 rooms overseas. We will achieve this by winning share from independents and other branded hotels and growing the brand in selected international markets using a capital right model. In Costa we have targeted around £2 billion of system sales by 2018, up from the £1.2 billion of system sales last year. This will see us reach more than 2,200 UK stores by 2018 at the same time as growing our franchise and equity business internationally, with particular focus on extending our footprint in China.



Making everyday experiences special

We have a simple but powerful business philosophy which is encapsulated in our 'Customer Heartbeat' model which puts the customer at the heart of everything we do. It can be found throughout Whitbread, from our Boardroom wall to the back of house in every single Whitbread operated hotel, restaurant and coffee shop.

We are a hugely people-intensive business, with our 43,000 team members in the UK aiming to make everyday experiences special for each and every one of our 22 million customers each month. Our Customer Heartbeat model forms the foundation of our strategy. The delivery of a consistently great customer experience drives strong unit sales growth, delivering the margins and cash flow to finance our rapid and focused organic growth and achieve our 2016 and 2018 growth milestones.

Delivering for our customers – building a strong Customer Heartbeat

We aim to build strong brands by putting customers at the heart of everything we do and we are proud to have the UK's No.1 coffee shop brand and No.1 budget hotel brand as measured by Allegra Strategies and YouGov respectively. We measure our success through customer feedback in the form of both brand preference scores and net guest scores. We focus on increasing the number of customers who are very satisfied with their experience (and more likely to recommend us to their friends and family) and reducing the percentage who are dissatisfied. Once again we have delivered record guest scores for all our brands in the UK.

Great customer service needs to be backed up with great products and we have invested over £100 million in the year in maintaining and upgrading our existing hotels, restaurants and coffee shops to ensure that they are the best in their markets. An enduring focus on innovation is producing exciting fresh experiences for our customers, whether that's a new range of speciality lattes or a completely new hotel concept in 'hub by Premier Inn', which launches later this year.

Delivering for our people – building Winning Teams

We are passionate about building highly engaged Winning Teams and we are committed to making sure we have a great place to work. In this Report you can read about some of the inspiring work we are doing to create jobs for young, often long-term unemployed people who need that all important break to get into work and, once they've joined, to give them the opportunity to develop their skills in a structured way through industry-leading training programmes.

We ask our teams through a six monthly 'Your Say' survey about what it feels like to work at Whitbread. This year we achieved record engagement scores across all our brands and improved our rankings in the Sunday Times Best Big Companies to Work For 2014 and the UK Top Employers surveys, where we ranked 8th and 3rd respectively.

“Our continuing success is a result of, and a tribute to, the passion and commitment of our team members. Let me take this opportunity to thank them all, on behalf of the Board, for their contribution.”



Delivering for our communities – Good Together

Businesses should be a force for good in the communities and economies in which they operate. Our corporate responsibility programme, Good Together, has gone from strength to strength in the five years it has been running. We've set ambitious targets and in this Report you can read how we are delivering these. We are also proud to hear the real-life stories from around our business that illustrate the difference we make to people's lives and the environment that we all share.

Delivering for our shareholders – driving Profitable Growth

It is no coincidence that record performance scores for our Winning Teams and our Customer Heartbeat have driven record financial results. In 2013/14 we grew our total sales by 13.0% to £2.3 billion. This growth in total sales was a combination of a 4.2% increase in like for like sales and continuing expansion of our network. During the year we opened 23 net new Premier Inn hotels in the UK with 3,364 net new rooms. We are also continuing to grow Premier Inn in selected international markets. We opened a new Premier Inn hotel in Abu Dhabi, another in Pune, India and have firm agreements to build 22 hotels in three target regions. Alongside our new Premier Inn hotels in the UK we constructed eight new restaurants, reinforcing the unique Whitbread joint site model, consisting of a Premier Inn hotel closely adjacent to a Whitbread restaurant. Costa has also continued its strong organic growth with the opening of 334 net new coffee shops worldwide, including 177 in the UK, together with the installation of 955 net new Costa Express machines.

Our strong sales performance translated into a 16.5% growth in underlying pre-tax profit to £411.8 million and a 20.1% growth in earnings per share, helped by a reduction in the corporation tax rate. We have maintained our strong balance sheet with our net debt falling from £471.1 million to £391.6 million over the course of the financial year. This was driven by our strong cash flow, which also financed capital reinvestment in the business of over £300 million. Our strong profit growth and cash flow have led the Board to propose a 24.0% increase in the final dividend, which would deliver a full-year dividend of 68.80p, an increase of 19.9%.

During the year we held a Costa Investor Day and a Hotels & Restaurants Investor Day. These provided an opportunity for investors to understand the strategy better for each business. We outlined how we will continue to focus on winning share in our domestic UK market and how we will grow Costa and Premier Inn in selected overseas markets where we believe they will prosper. Costa is now in 29 countries overseas with over 1,000 stores including 326 in China. Premier Inn has eight hotels in the Middle East and India and is exploring additional developing markets such as Indonesia and Thailand.

It is fitting that, in a year of record performance, our Board thanks our Chairman, Anthony Habgood, for his outstanding contribution to Whitbread's success. When he joined Whitbread in May 2005 it was a very different business to that today. Together with the Board, he embarked upon a journey to transform Whitbread into a focused company, committed to investing in and building wholly-owned market leading brands which create sustained shareholder value. Under his stewardship shareholders have enjoyed significant returns, with a total shareholder return (which includes share price growth, dividends and capital returns) 5.5 times greater than that of the FTSE 100 over the same period. He leaves Whitbread stronger and sharper, with a firm platform upon which to deliver our exciting growth ambitions.

In the following pages we have included more detail on the work our Winning Teams are doing to build a strong Customer Heartbeat and to drive Profitable Growth and create shareholder value. I hope you find this interesting and informative.

Andy Harrison
Chief Executive
28 April 2014

The Whitbread Way



	Business philosophy	Measures
Winning Teams	We build highly engaged teams who make everyday experiences special for our millions of customers – by recruiting the best people, investing in training and development, growing talented leaders and recognising and rewarding success.	<ul style="list-style-type: none"> • Team engagement • Team turnover • Health and safety
Customer Heartbeat	We put the customer at the heart of everything we do, as well as developing innovative new products and services to meet and exceed customer expectations, building brand preference and winning market share. We are committed to maintaining the quality of our estate through ongoing refurbishment.	<ul style="list-style-type: none"> • Net guest scores • Brand performance • Brand standards
Profitable Growth	We create shareholder value by growing profits and delivering good returns through focused investment in Premier Inn (including our unique joint site restaurant model) and Costa, where we pursue organic growth in domestic and selected international markets. We maximise Group synergies through a focus on delivering a consistently good customer experience in a service and people-intensive environment and utilising our central property expertise.	<ul style="list-style-type: none"> • Growth milestones • Underlying profit • Underlying basic EPS • Returns on investment • Like for like sales growth • Market performance
Good Together	We aim to be a force for good within the communities in which we operate by embedding our CSR principles into the way we do business. Our plan has three main pillars: Teams and Community; Customer Wellbeing; and Environment.	<ul style="list-style-type: none"> • Good Together targets • Carbon consumption • Waste diverted from landfill

WINcard

We set key performance indicators for Winning Teams, Customer Heartbeat, Profitable Growth and Good Together. Behind each of these headings are clear and measurable targets which together make up our balanced scorecard or WINcard as we call it (Whitbread In Numbers). The Remuneration Committee takes account of a range of factors when setting targets, but in most cases the following principles are applied:

- A green score is achieved where the performance is better than both target and the previous year.
- An amber score is for performance which is better than the prior year but below target.
- A red score is for a result below the previous year.

More on p34 to p37

Good Together



Targets 2016/17

Teams and Community	Customer Wellbeing	Environment
<p>Job creation</p> <ul style="list-style-type: none"> 10,000 new UK jobs. <p>Charitable activity</p> <ul style="list-style-type: none"> Hotels & Restaurants has committed to raise £7.5 million towards The Premier Inn Clinical Building at Great Ormond Street Children's Hospital, which is due to open in 2017. Costa Foundation to educate 50,000 children and build 50+ schools in coffee-growing communities. <p>Qualifications and training</p> <ul style="list-style-type: none"> Hotels & Restaurants – 10,000 qualifications (including 3,000 apprenticeships). Costa – enhanced skills training to 20,000 team members. Hotels & Restaurants – 4,500 school work experience placements. 	<p>Accreditation and sustainable supply of:</p> <ul style="list-style-type: none"> tea/coffee; timber; palm oil; fish; meat; and all Costa hot drinks will be Rainforest Alliance certified. <p>Improve the nutritional content across our food and drink portfolio, enabling customers to make informed choices. As part of this, calorific labelling will be introduced into outlets.</p>	<ul style="list-style-type: none"> 25% carbon reduction¹. 25% reduction in water consumption¹. Zero waste to landfill¹. 10% carbon reduction across the supply chain.

Activity in the year

Teams and Community	Customer Wellbeing	Environment
<ul style="list-style-type: none"> Around 3,000 net new UK jobs created. Over 690 apprentices in learning with 557 awarded in 2013/14. Over 20,000 team members received training and development and took part in skills programmes. Raised over £1.5 million for the Costa Foundation, with eight new school projects opening during the year. Raised over £2.2 million to date for Great Ormond Street Hospital Children's Charity with almost £1.5 million being raised this year. 	<ul style="list-style-type: none"> New Costa hot chocolate powder, with 100% Rainforest Alliance cocoa, for worldwide distribution from March 2014 mirroring our commitment to coffee and tea. We have updated our models and policies to deliver against our challenging 2017 sustainable sourcing targets ahead of supplier engagement in 2014. Upweighted activity on development within our food and drink portfolio, delivering further focus on calorific content and nutritional value. 	<ul style="list-style-type: none"> Relative to sales, carbon emission efficiency has improved by 10.3% pts year on year. We now stand at a 32.8% reduction in carbon intensity from our 2009 baseline and have hit our target three years early. We are reviewing our medium-term environment strategy and will develop new programmes and targets for release in 2015. We have achieved a 7.7% reduction in water use year on year, relative to sales. We have now reduced water usage by 28.2% from our 2009 baseline and have hit our amended target. We are developing the next phase of our water reduction strategy and will launch new targets in 2014. At the end of the financial year we were diverting 92.7% of waste from all hotels and restaurants from landfill and 94.6% from all directly operated hotels and restaurants. In Costa we were diverting 67.0% of all waste from landfill by the end of the year.

¹ From Whitbread direct operations and based on 2009 baselines.

Hotels & Restaurants Business model

The Whitbread Way – the foundation of our strategy



Winning Teams	<ul style="list-style-type: none"> We recruit, reward, train and develop our 30,000 team members to build highly engaged teams who deliver great customer service and make everyday experiences special. 	<ul style="list-style-type: none"> We offer jobs with opportunity, and an industry-leading apprenticeship programme to grow talented leaders.
Customer Heartbeat	<ul style="list-style-type: none"> With over 670 UK hotels, Premier Inn offers customers the greatest choice. Premier Inn offers a consistently high quality product supported by our Good Night Guarantee. Our dynamic pricing system means we can offer customers the best value and deliver occupancy targets. We are a leading online retailer — nearly four out of every five bookings is made at www.premierinn.com 	<ul style="list-style-type: none"> We build brand awareness and loyalty through targeted marketing and sales. At every Premier Inn we serve great food and drink. Over half of our Premier Inns have a Whitbread branded restaurant next door. Our restaurants have distinctive brand propositions and serve great quality value food appealing to a local customer base and our hotel guests. We continually refurbish our estate to maintain its quality.
Profitable Growth	<ul style="list-style-type: none"> We invest in high returning, consistently profitable sites and are increasing our share of the UK market with rapid expansion of Premier Inn, especially in London. We are entering into selected international markets with the Premier Inn brand. 	<ul style="list-style-type: none"> We maximise synergies and efficiencies with our joint site restaurants.
Good Together	<ul style="list-style-type: none"> We are raising £7.5 million towards The Premier Inn Clinical Building at Great Ormond Street Children’s Hospital. We are creating more than 1,000 job opportunities every year with a focus on 16 to 24 year olds and the long-term unemployed. 	<ul style="list-style-type: none"> We are committed to sustainable sourcing. We seek to minimise our carbon, waste and water usage often using innovative technology and construction methods.

For Hotels & Restaurants Investor Day presentations please see www.whitbread.co.uk/investordays

Hotels & Restaurants Highlights



Winning Teams

Highlights

- Achieved our highest ever engagement scores in the 'Your Say' survey.
- Created new employee propositions for both Premier Inn and Restaurants.
- Participated in industry-led forums focusing on youth unemployment, apprenticeships and work experience.
- Recognised as one of the 'Top 100 Apprenticeship Employers' by the National Apprenticeship Service.

Figures

93%

of team members completed the 'Your Say' survey

£1.1 million

paid to team members through the 'My Rewards' programme

1,045

work placements completed by unemployed people and school students

1,200

new jobs created



More on p12

Customer Heartbeat

Highlights

- A quality restaurant is critical to Premier Inn's guests and our joint site model continues to be popular with our customers.
- 'hub by Premier Inn' was launched in 2013, with the first hotel due to open in the second half of 2014.
- Premier Inn was rated the 'best value hotel' for the fourth year running by YouGov.
- Following the successful launch of the Beefeater Rewards Club, loyalty schemes have been rolled out in Brewers Fayre and Table Table.

Figures

672

hotels in the UK. Premier Inn's scale allows our customers to stay closer to where they want

70%

of Premier Inn guests scored their stay as nine or ten out of ten

377

of our Premier Inns are adjacent to one of our branded restaurants

89%

of guests eating in our restaurants rated the food as four or five out of five



More on p14

Profitable Growth

Highlights

- Strong cash flow generation fuelled both reinvestment in the business and organic growth.
- Premier Inn's committed pipeline remains strong and puts us on track to deliver our growth milestones.
- Our restaurants outperformed the Coffey Peach industry benchmark outside of the M25.
- Expanding the Premier Inn brand across the Middle East, India and South East Asia.

Figures

3,771

net new Premier Inn rooms were opened in the year

11,500

rooms in our committed pipeline

36%

of all visits to the Premier Inn website are now via mobile devices

1.7 million

customers in the email database of our restaurants brands



More on p17

Good Together

Highlights

- Recognised for the fourth year running by Business in the Community, with re-accreditation of the 'Skills in the Workplace' award 2013.
- Carbon heat map process and reporting system established to engage the supply chain in carbon reduction.
- Doubled the amount of renewable energy purchased.
- Continued focus and progress to reduce salt content in our dishes in line with Department of Health targets.

Figures

£2.2 million+

raised for Great Ormond Street Hospital Children's Charity

16,900+

volunteering hours given

23.1%

less carbon emitted since 2009 relative to sales

21.2%

reduction in water consumption since 2009 relative to sales



More on p19

Hotels & Restaurants Winning Teams



Across our 672 Premier Inns and 401 restaurants we employ more than 30,000 people. Success is all about making everyday experiences feel special for our customers and we rely on our Winning Teams to do just that. That's why it's so vital that our teams are highly engaged and passionate about what they do.

We measure engagement through our six-monthly 'Your Say' survey and, in the most recent survey, we achieved our highest engagement scores to date.

Team engagement survey: 'Your Say'

	Engagement score Oct 2013	Engagement score Oct 2012	Response rate Oct 2013	Response rate Oct 2012
Hotels & Restaurants	80%	75%	93%	96%

'Your Say' lets us know the things that matter most to our teams and we use the results to develop specific action plans. One of the priorities identified is to have better two-way communication and we have taken a number of steps to address this, including new listening forums. These have taken place in over 100 sites, enabling team members to have a voice and speak freely with the leaders of the business and to share ideas for improvement. This year, we launched 'Avenue' to the business. This is a digital internal social media platform which allows ideas to be shared across the Group and successes to be celebrated.

Premier Inn

At Premier Inn's annual conference this year, we launched our Guest Purpose: **'Making our guests feel brilliant through a great night's sleep'**. At the same time, we launched the new Premier Inn 'People Promise': **'Premier Inn, a place made by you'**. The main purpose is to ensure that every team member understands the part they play in delivering our Guest Purpose.

Premier Inn's 'People Promise' is split into four areas:

- **I feel really special** — we have developed a programme of management and leadership development as well as a programme of team member training. Its intention is to ensure that every member of the team understands the importance of the role that they play in delivering our Guest Purpose.
- **How will I know I am doing a good job?** — we have launched new training tools, an Ambassador programme to support our new starters, and we have launched our new induction 'Brilliant Beginnings' ensuring our teams know how they're doing every step of the way.
- **I have lots of opportunities to grow** — we are focused on building our talent and succession pipeline in all regions and countries where we operate to meet our ambitious growth plans. In total we have held 3,180 days of management development training and a total of 557 people completed an Intermediate or Advanced apprenticeship. We have also launched a 'Stretch Development' 12 month programme for our leaders with high potential. In total, 71% of Premier Inn's appointments were internal.
- **I am rewarded and recognised** — this year has seen the launch of 'My Rewards' in Premier Inn. An innovative programme which uses pre-loadable, pre-paid VISA debit cards for all reward and recognition payments. So far this year we have paid out £520,000 to our teams through 'My Rewards', as recognition of their contribution to the reduction in complaints and improvement in guest feedback scores. To date over 13,000 (80%) of our team members have registered for their 'My Rewards' card and we are committed to continuing to create a culture of celebrating and recognising our teams who go the extra mile for our guests.



Record team engagement scores in 2013/14.



Restaurants

This year Restaurants have focused on a single purpose; to ensure our 14,000 team members are willing and able to **'Serve up Great Memories'**. Over the last 12 months, we have developed a clear message to our team members under the heading **'You're the Main Ingredient'** with the belief that we all have a vital part to play in the success of Restaurants.

Our progress in Restaurants is detailed below:

- **I know you care** — as in Premier Inn, this year we introduced our new rewards programme 'My Rewards' to our teams, with over 90% of teams receiving financial recognition for their role in serving up great memories. We equipped our Regional Managers with mobile access to the 'My Rewards' system and recognition tools to enable them to instantly celebrate their teams' successes. Teams across Restaurants took part in a range of incentives to a total value of £550,000, which rewarded their contribution and boosted sales at key trading periods throughout the year.
- **I know how to progress my career** — in total we have delivered 472 days of management development training in the year, helping our teams to improve their skills and realise their potential. We developed a simplified career journey to make progression accessible to a wider population. More recently we have launched our new 'Progressing Into General Management' programme, which aims to fast track our most high potential team members into general management positions. Out of our 333 management appointments this year, 56% were internal development moves.
- **I know what is expected of me** — we have focused on improving communications and engagement around our purpose of Serving up Great Memories across our business, enlisting the support of our team members to shape our two-way communication strategy.
- **I know how I'm doing** — in partnership with our teams and managers, we have launched new 'team chat' tools at site to support regular open dialogue, ensuring our teams know how they're doing every step of the way.
- **I know my stuff** — 350 of our very best team members graduated from our four day Heroes training programme during the year. The programme creates ambassadors, who help train others, improve guest experiences and engage their teams. 1,072 delegates attended a restaurants management academy course and 7,500 days of training were delivered in our kitchen skills academies across the UK.
- **I feel part of something special** — we achieved record engagement scores and our most improved areas were 'open and honest two-way conversation', 'the Company really listens to what I have to say', 'my manager gives me helpful feedback' and 'I see how I can develop my career'.

Skills development

Developing the skills and abilities of our teams is core to enabling our people to achieve their ambitions, have a good sense of wellbeing at work and deliver great experiences to our millions of customers. In 2013/14 we broadened our approach and are now reaching out into the communities in which we operate, supporting our Good Together goal to be a force for good.

We have hosted and taken part in several industry-led forums, 'Big Conversations in Hospitality', to focus on three areas: youth unemployment; apprenticeships; and work experience. This has resulted in over 30,000 pledges from Whitbread and other industry employers to offer jobs, work experience and apprenticeships to young people.

We have developed our WISE Programme (Whitbread Investing in Skills and Employment), which secured funding from the Government's Employer Ownership of Skills project to support a number of initiatives including:

- building links with schools, colleges and universities;
- providing sustainable and inspirational work experience to young people;
- transitioning the unemployed into work; and
- developing a progression of apprenticeships.

Work placements

This year, we have provided opportunities to young and unemployed people who may struggle to gain experience and access to employment. In total over 1,045 placements were completed with structured work experience for school students and unemployed people to give them experience working in a highly customer-focused environment.

Apprenticeships

We were proud to be recognised as one of the 'Top 100 Apprenticeship Employers' by the National Apprenticeship Service and were highly commended in the National Apprenticeship Awards for an outstanding contribution to raising the profile of apprenticeships and raising skills across our industry.

Since we introduced the programme in 2009, 7,000 qualifications have been awarded including awards for 'Skills for Life' and functional English and maths.

Creating opportunities

Our ambitious growth plans, both in the UK and internationally, make our Hotels & Restaurants business an exciting place to work with plenty of opportunities and we are proud of our ability to develop people and build exciting and diverse careers.

This year we have appointed over 17,000 people into positions across the business including 657 management roles. Out of these over 1,200 were brand new jobs in newly opened sites. We have a target to ensure that 50% of new roles go to people not in education, employment or training.

Hotels & Restaurants Customer Heartbeat



Whitbread's hotels and restaurants welcome five million customers every month, whether that's to enjoy a meal out or a great night's sleep in a Premier Inn bed. We are committed to maintaining the excellent standards and levels of service that our guests expect, by growing the number of locations and investing in our product to ensure that we have brands that are the best in their marketplace and win share.



Our mission is to make every one of our guests feel brilliant by giving them a great night's sleep.

Largest network

With over 670 hotels around the UK, Premier Inn is the UK's largest hotel chain. We offer more rooms in more locations, which allows us to be closer to where our customers want to stay — whether that's to attend a family gathering, a business meeting or enjoy a weekend break.

We're guest obsessed

We operate the largest consumer survey in Europe with over 900,000 guests responding every year to our email questionnaire, providing daily feedback for every single site. We use this data to produce scores for each site and for the brand as a whole. In 2013/14 70% of our guests gave us nine or ten out of ten and the overall score has improved by 12% pts in the last three years.

At Premier Inn we really care about our guest experience and we offer a 'Good Night Guarantee', which gives the guest the ultimate guarantee that they can book our rooms with confidence. If they don't get a good night's sleep they get a full refund.

Enhancing the customer experience

As well as giving our guests confidence, the Good Night Guarantee also gives our teams confidence as it alerts them to issues and encourages them to fix them quickly. This helps us to target our investment to maintain standards and in 2013/14 we invested around £80 million in repairs, maintenance, refurbishment and systems. To ensure a consistently superior product we follow a systematic refurbishment cycle across our estate which involves a light refurbishment after years three and nine, the replacement of TV and soft furnishings after six years and a full refurbishment every 12 years.

To maintain our leadership position, this year we have launched three key innovations, our new bed; our new room; and a new brand — 'hub by Premier Inn'.



New TV advert featuring Lenny Henry promoting the new bed.

At the heart of a great night's sleep lies a great bed and we have partnered with leading bed-maker, Hypnos, to develop our next generation bed. With 1,200 individual pocket coil springs, a super-comfortable integrated topper, and a mattress made from 100% recyclable materials supporting our Good Together programme, our bed sets the standards for the sector and is now being rolled out.

We have also been developing the next generation of our room and, whilst the bed is clearly the hero, the new room also features a 40-inch flat screen TV, enhanced energy-efficient lighting, aerated power shower, excellent working space and a fresh modern design. All the new hotels that we build will feature the new room and bed, which we will also roll out to our existing rooms in line with our refurbishment cycle.

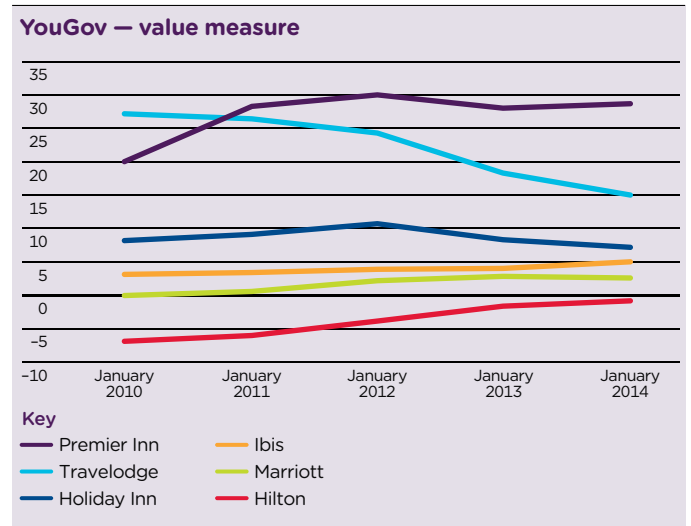
Launched in July 2013, 'hub by Premier Inn' is a new generation of compact, city centre hotels with contemporary room design that will offer good value for money and appeal to customers who value price, location and design over space. It will target major UK city centres such as London and Edinburgh. The first one is due to open in the second half of 2014 in St. Martin's Lane, right in the heart of London's West End and a further eight sites are in the pipeline, including two in Edinburgh.



'hub by Premier Inn' — a new generation of compact city centre hotels.

Brand awareness

Premier Inn continues to top the YouGov brand index and has been rated 'Best Value Hotel' for the fourth year in a row.



Source: YouGov Brand Index 52 week rolling average at 1 January. Score is calculated by taking negative answers from positive answers and dividing by the total number of responses.

We've also picked up some major industry awards in the year including Best Budget Hotel Chain 2013 at the Business Traveller Awards and Favourite Hotel Chain according to Travel Weekly and the Daily Mail. We were also delighted to be the highest ranked budget brand in the 'Which? Hotel Report 2013'.

In January 2014, we launched a new £15 million multi-channel TV advertising campaign, once more featuring Lenny Henry. The aim of the campaign was to emphasise our commitment to delivering a great night's sleep, build our emotional connection with consumers and reinforce the scale of our national network.

Vision to be 'best in class digital retailer'

Premier Inn is an online business and we have significantly increased our investment in digital to improve the overall customer experience.

We are doing this in a number of ways. Firstly, we drive traffic to our web and mobile sites through broad reach TV advertising and email promotions; secondly we are creating engaging and relevant content on our sites including customer reviews, Trip Advisor ratings and social media activity, to improve our presence on the web and enhance the customer experience; and thirdly once customers have come to our sites we then seek to convert as many of them as possible to book with us. Our seamless online check in facility means guests can book, pay and check in, all online.

Hotels & Restaurants Customer Heartbeat continued

Customers access our website using mobile devices more and more and we are responding to these changes by developing rapidly in this area. We are increasingly active on social media helping to improve brand engagement. We now have more than 34,000 followers on Twitter and over 96,000 Facebook fans; double that of two years ago.

Restaurants that serve up great memories

With around 47 million guests a year eating in our restaurants our teams are committed to making every single experience a memorable one.



Serving up great memories.

Of our 672 Premier Inn hotels in the UK and Ireland, 377 are adjacent to either a Beefeater, Brewers Fayre, Table Table or Taybarns restaurant and our Restaurants business plays an important role in supporting Premier Inn's growth and success. A quality restaurant is critical to Premier Inn guests, especially for breakfast which is enjoyed by 60% of all guests. 25 to 30% of Premier Inn guests also choose to have dinner in the adjacent restaurant and like the choice and great value dining experience that our Restaurant brands offer.

However, around 85% of our Restaurants' customer base are people who live locally and are not Premier Inn guests, so it is equally important to ensure that our Restaurant brands have a broad appeal within their communities.

We are equally guest obsessed in our Restaurants business and run a Guest Recommend survey receiving over 400,000 responses annually. We use the responses to produce a guest score and in 2013/14 we achieved record guest scores across our three main brands of Beefeater Grill, Brewers Fayre and Table Table. For all Restaurant brands combined, the overall score increased in the year by 3.2% pts to 66.1%.

The areas where we saw the most significant improvements in guest scores were in food quality and customer service. 89% of our guests rated our food four or five out of five and 92% of our guests rated our staff friendliness four or five out of five. The improvement in guest scores is down to a number of measures that internally we refer to as our 'recipe for success'. This recipe boils down to having highly engaged team members, quality food and a great menu choice.

Another major factor in improving our guest scores has been the greater choice of dishes on the menus, improved food quality and better presentation on the plate. We have spiced up our menus with a more exciting range of dishes, including a greater choice of salads in Beefeater Grill and a new range of burgers in Table Table.

Building a loyal fan base

On the back of the highly popular Beefeater Rewards Club, we have rolled out loyalty schemes in our other two main brands during the year. The Brewers Fayre Bonus Club was launched in April 2013 and the 'Table Table Tasty Rewards' was launched in August 2013.

These programmes help us to understand our guests much better than ever before. We know how often they dine with us, who they bring, what they eat and other facts such as their birthdays. We have already rewarded our most loyal customers with 57,000 free birthday meals and the good news is they invite friends and family.

2013/14 has also been the year when our social media presence took off across our Restaurant brands and has helped us to really engage our customer base. We launched the Beefeater Facebook and Twitter accounts in June 2013 with the 'Boss of Beef' campaign headed up by Sir Ian Botham and we now have 294,000 fans on Facebook and 6,100 followers on Twitter across our Restaurants business.

Hotels & Restaurants Profitable Growth



During 2013/14 our Hotels & Restaurants business delivered a good performance with revenue increasing by 9.8% to £1,494.0 million.

Premier Inn grew total sales by 13.4% to £967.9 million with the opening of 3,771 net new rooms worldwide and like for like sales growth of 5.0%. Restaurants grew total sales by 3.9% to £526.1 million with like for like sales growth of 1.6% and the opening of eight restaurants. Underlying profit rose by 11.2% to £348.1 million and Hotels & Restaurants' return on capital increased by 0.9% pts to 13.3%.

Our strong cash flow generation fuelled both reinvestment in the business and organic growth as we invested £231.1 million during the period. At the same time, we delivered consistently strong returns as we focus on growing profits and improving shareholder value year after year.

We held an Investor Day in July 2013 and the presentation can be found at www.whitbread.co.uk/investordays

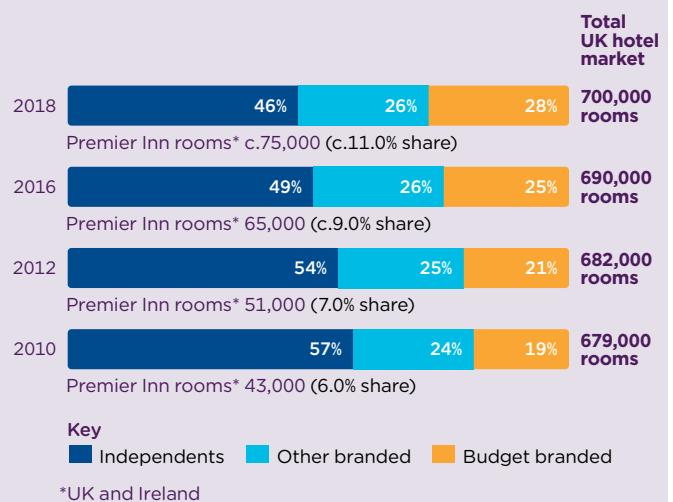
UK hotel market

Whilst the UK hotel market has seen little volume growth since the onset of recession in 2008 there are important shifts taking place. The independent sector has been in decline to the benefit of branded chains which are gaining share. We expect the structural change in the hotel sector to continue, providing further opportunity for branded penetration within the UK market. By using our competitive advantage of the largest hotel network, a consistent superior product and great value for money, combined with our brand strength and operational excellence, Premier Inn is ideally placed to benefit from this structural shift.



Premier Inn offers more rooms in more locations, allowing our customers to stay closer to where they want to be.

Continued structural change provides opportunity to grow to c.75,000 rooms by 2018



Source: BDRC, IPS (ONS), STR, TRI, Oxford Economics, Visit Britain, OC&C analysis.

Growth milestones

At the end of 2012/13 we extended our growth milestone to reach around 75,000 UK rooms by 2018 through the addition of 23,000 rooms and for our share of the total hotel market to rise from 7.6% to around 11.0% across this period. In 2013/14 we made good progress against our growth objectives opening 3,364 net new Premier Inn rooms in 23 net new hotels including eight new joint site restaurants. This increased our total number of rooms to 55,035 and hotels to 672.

We analyse supply and demand in some 500 micro markets across the UK and see a significant growth opportunity in London where we currently have 8,729 Premier Inn rooms. We have plans to grow our London estate to 20,000 rooms by 2018 and our central London rooms from around 2,900 to 8,250. The business case for operating in central London is particularly compelling with the profits of a leasehold room being twice that of a leasehold room in the regions due to higher RevPAR and a faster maturity profile.

Our 2018 growth milestone includes 3,000 rooms of our new compact city centre hotel brand, 'hub by Premier Inn'. The footprint of a 'hub' room is 45% smaller than that of a Premier Inn room and, with 25% lower build and operating costs, would deliver similar returns on capital to a Premier Inn hotel at a 30% lower price point. Our first 'hub' hotel is due to open in the second half of this year.

Hotels & Restaurants Profitable Growth continued

Our committed pipeline remains strong with 11,500 rooms of which 5,500 are in London. This puts us on track to achieve our 2016 growth milestone of 65,000 rooms and well on our way towards reaching our target of around 75,000 rooms by 2018.

Whilst we focus on delivering our organic growth strategy it is also important that we continue to deliver good like for like growth. Our focus on the quality and consistency of our product and services combined with the key levers of dynamic pricing, digital, reinvestment in our estate and network strength improved like for like sales by 5.0% for Premier Inn during 2013/14.

Dynamic pricing

Dynamic pricing has been an important contributor to our sales growth as we have introduced more sophistication into our pricing. Today, we have two separate price points – Flex and Saver – each of which carry different benefits targeted at specific consumer segments.

As we build our digital capability this directly benefits our dynamic pricing model. By linking our online data, together with our customer data and bookings performance, we can get detailed information on demand and purchase patterns, which allows us to make more precise and profitable pricing decisions.

We continue to invest significantly in this key area of our business to enable us to improve our sales per available room, win market share and enhance overall returns.

Digital

Premier Inn is a leading digital retailer with over 85% of bookings derived through our digital channels. Online distribution remains a key focus for Premier Inn and we continue to invest in mobile innovation and driving direct sales to our website. The latter is our preferred method of distribution representing 77% of our bookings, compared with only 8% for a third-party affiliate with the remainder being by telephone or walk-in guests.

Mobile platforms are a major contributor to growth with visits to our websites doubling across the past 12 months to represent 36% of all visits. We launched our first mobile app in 2011 with an updated version in 2012, for which there has been some two million downloads. Mobile development is an area of rapid growth and we are responding to this changing environment through investing in our digital capabilities.

We believe digital offers a huge opportunity in our market, allowing us to maximise the capacity across our network through up selling and cross selling in order to deliver better cost efficiencies and greater profitability.

Restaurants

Restaurants made good progress in the year with like for like sales growth of 1.6%, outperforming the Coffee & Dough industry benchmark outside of the M25. The growth in like for like sales has been driven by management actions including new menu ranges, better procurement, continuing focus on coffee and breakfast sales combined with smarter promotions as we have grown our email database to 1.7 million customers.

The joint site model continues to provide significant benefits to Whitbread through offering a superior customer experience. It also allows access to smaller catchment areas where there is demand for only 50 to 80 Premier Inn rooms, enabling us to offer consumers the widest choice of locations in comparison to our competitors. Together this translates into a higher guest recommend score which is a driver for RevPAR growth and better return on capital.

International

Overseas, our five hotels in the Middle East and three hotels in India made good progress with like for like occupancy rising 10.9% pts to 77.5% and like for like RevPAR growing 20.0%. Our hotels business in the Gulf is now generating profits and, whilst India has proven more challenging, we remain confident about our longer-term prospects in India and the underlying trends in the market.

We started our international journey in 2008 through building Premier Inn hotels in the Middle East and India to establish the brand. We are now accelerating our growth through transitioning from an asset heavy to an asset light strategy and focusing on a small number of high growth, selected emerging markets which have attractive leisure and business fundamentals. We have a good committed pipeline of 22 hotels and 16 signed memoranda of understanding as we continue to expand the Premier Inn brand across the Middle East, India and South East Asia.



Bringing the Premier Inn brand to the Middle East and India.

Hotels & Restaurants Good Together



Team and Community		
<p>Approach We will make lives better for our teams and communities through education, employment and opportunity.</p> <p>Programmes</p> <ul style="list-style-type: none"> Charitable giving Job opportunities Career development Team member wellbeing 	<p>Aim by 2017</p> <ul style="list-style-type: none"> To raise £7.5 million for The Premier Inn Clinical Building at Great Ormond Street Children's Hospital, which is due to open in 2017. 10,000 nationally recognised qualifications for team members (including 3,000 apprenticeships). 5,000 new jobs created (50% of these filled by young and long-term unemployed). 4,500 school work experience placements. 5,000 local community hours given. Team member health and wellbeing programme in place. 	<p>Progress</p> <ul style="list-style-type: none"> Over £2.2 million raised for Great Ormond Street Hospital Children's Charity. Over 690 apprentices in learning with 557 awarded in 2013/14. Over 1,100 new jobs (many filled by young and long-term unemployed). 784 work placements completed with 36% successfully hired into permanent jobs. 16,905 volunteering hours given. The original target is now under review. Recognised in Top 100 Apprenticeship Employers. 277 individuals completed school work experience placements.
Customer Wellbeing		
<p>Approach We will make lives better for our customers by providing goods and services they can trust and helping them make informed choices.</p> <p>Programmes</p> <ul style="list-style-type: none"> Sustainable sourcing Menu development Customer engagement 	<p>Aim by 2017</p> <ul style="list-style-type: none"> Accreditation and sustainable supply of global critical products. Progressive improvement of information on nutritional content across our food and drink portfolio enabling customers to make informed choices. We will communicate with our customers openly and transparently about our actions, plans and achievements. 	<p>Progress</p> <ul style="list-style-type: none"> Updated models and policies to deliver against our challenging 2017 sustainable sourcing targets ahead of supplier engagement in 2014. Continued focus and progress within our food platforms to reduce salt content in line with Department of Health targets. Upweighted activity on development within our food and drink portfolio, delivering further focus on calorific content and nutritional value. Continued high levels of traceability and audits for meat products.
Environment		
<p>Approach We will make lives better for everyone by reducing our impact on the environment through our energy, carbon, water and waste programmes.</p> <p>Programmes</p> <ul style="list-style-type: none"> Consuming less — energy saving Generate own renewable energy Sustainable new build and sourcing Carbon custody in supply chain Water reduction and efficiency Waste as a positive resource Engagement — switch it off campaign 	<p>Aim by 2017</p> <ul style="list-style-type: none"> 25% carbon reduction from direct operations (relative to sales against a 2009 baseline). 10% carbon reduction across supply chain activities (against a 2014 baseline). 25% water consumption reduction (relative to sales against a 2009 baseline). Zero waste to landfill from direct operations. Certified energy and environmental induction training for all team members. Conduct energy assessment audits across all properties. 	<p>Progress</p> <ul style="list-style-type: none"> 23.1% less carbon emitted than in 2009 relative to sales. Doubled amount of renewable energy purchased to 32% and self-generated over 300,000 kWh from on-site Solar PV. Carbon heat map process and reporting system established to engage supply chain in carbon reduction. 21.2% water consumption reduction relative to sales against our 2009 baseline. 94.6% of waste now diverted from landfill from direct operations. Energy audit assessments carried out in over 20% of Hotels & Restaurants properties.

Costa Business model

The Whitbread Way – the foundation of our strategy



Winning Teams	<ul style="list-style-type: none"> We recruit, reward, train and develop our team members to build highly engaged teams who deliver a great coffee experience for our customers. 	<ul style="list-style-type: none"> We develop talented leaders and offer jobs with opportunities and exciting international career prospects.
Customer Heartbeat	<ul style="list-style-type: none"> The size of our network and the number of distribution channels mean you are never far from a cup of Costa coffee. We serve the best quality coffee. We constantly develop new food and drink ideas. 	<ul style="list-style-type: none"> We design our stores to create a warm and welcoming experience. We use customer insight to build customer satisfaction. We maintain quality through ongoing refurbishment.
Profitable Growth	<ul style="list-style-type: none"> We invest in our stores to strengthen our position as UK market leader and expand in selected international markets where we can build significant presence. 	<ul style="list-style-type: none"> We use a number of different ownership models including Costa-owned equity stores, franchise and joint ventures. Internationally, we continue to build a strong franchise business and are extending our Costa-owned equity model into key countries.
Good Together	<ul style="list-style-type: none"> We raise money for the Costa Foundation, which builds school projects in coffee-growing communities. Our teams take pride in supporting their local communities. We are creating 1,500 new job opportunities every year. 	<ul style="list-style-type: none"> All our coffee is 100% Rainforest Alliance accredited and all our products are sustainably, ethically and, wherever possible, locally sourced. We are reducing waste to landfill and our carbon footprint in relative terms.

For Costa Investor Day presentations please see www.whitbread.co.uk/investordays

Costa: strength and breadth

UK Retail Equity stores Individual franchise <hr/> System sales £650.3m (+17.5%) <hr/> Shops 1,397 (+12.3%)	Costa Enterprises Costa Express Corporate partnerships <hr/> System sales £287.2m (+22.0%) <hr/> Shops 358 (+7.2%) Machines 3,515 (+37.3%)	Costa EMEI Europe, Middle East and India <hr/> System sales £190.3m (+10.6%) <hr/> Shops 764 (+10.4%)	Costa Asia China and South East Asia <hr/> System sales £71.4m (+48.2%) <hr/> Shops 342 (+33.1%)
--	--	--	---

Costa Highlights



Winning Teams

Highlights

- The quality of our coffee and expertise of our baristas is vital to Costa's success.
- We have worked with the Prince's Trust on 'Get into Coffee' programmes.
- We continue to pay above the national minimum wage and we also offer an incentive scheme called 'Feel Good'.
- Tony Huang, from Guangzhou, China was the winner of the 8th annual Costa Barista of the Year competition.

Figures

88%

'Your Say' response rate

1,800

new UK jobs

3,000+

baristas taken through Barista Maestro and Coffee Champion training

1,000

team members participated in management training workshops



More on p22

Customer Heartbeat

Highlights

- In the UK we have built a store network that is bigger than the second and third brands combined.
- Our 'Listen and Learn' customer insight programme inspires our teams to deliver great customer service.
- All our stores must be warm, clean and inviting.
- We added new drinks to our Costa Ice range which achieved record breaking sales in the UK.

Figures

17 million

customers use Costa every month

34%

of customers score Costa nine or ten out of ten for brand warmth

69%

of our UK estate is new or refurbished in the last three years

2.3 million

active Coffee Club card holders



More on p24

Profitable Growth

Highlights

- We use the data derived from our Coffee Club card along with detailed demographic to plot our UK expansion.
- Costa has delivered 48 quarters of strong like for like growth.
- We have commenced a trial programme of opening equity stores in France.
- In addition to our store portfolio, we provide access to Costa through a number of different channels such as Wholesale, Costa Express and Costa at Home.

Figures

334

net new Costa stores opened

29

the number of countries in which Costa is present outside the UK

49%

of total sales are coffee purchases

£3.82

average UK transaction value



More on p27

Good Together

Highlights

- An additional eight schools have been completed with six more still under construction.
- All of our coffee comes from Rainforest Alliance Certified farms. A similar commitment to cocoa for our hot chocolate powder has been made for 2014 production.
- Costa became the first UK coffee shop brand to carry front of pack nutritional value information on our food products.
- Costa's coffee sacks are recycled and used as carpet underlay in Premier Inn hotels.

Figures

£1.5 million+

raised for the Costa Foundation

26,000

children provided access to education via the Costa Foundation

28%

reduction in carbon emissions relative to sales versus the 2009 baseline in UK equity stores

67%

of waste diverted from landfill in our UK stores



More on p29

Costa Winning Teams



We believe that if we create a great place to work for our team members this will build Winning Teams who will make everyday experiences special for our millions of Costa customers.

Costa uses Whitbread's six-monthly team engagement survey, 'Your Say', to measure how well we are doing at building a great place to work.

Team engagement survey: 'Your Say'

	Engagement score Oct 2013	Engagement score Oct 2012	Response rate Oct 2013	Response rate Oct 2012
Costa	82%	83%	88%	93%

We had very high 'Your Say' scores again this year, with 88% of people completing the survey and an overall engagement score of 82%. We use 'Your Say' to help us understand how it feels to work at Costa and have a rigorous action planning process at stores and in our support teams to learn from the results and continuously strive to make Costa a better place to work.

Communication is a key area where we know we can improve. This year, we launched 'Avenue' to the business, an online social media platform, encouraging conversation and enabling teams to showcase excellence and talk to each other as well as networking across our Whitbread brands. We also run regular focus groups at stores, in regions and in our support functions to explore important topics with our teams. Feedback from our teams has informed and fed into our 'Whole Package' principles, a way of rewarding our teams and driving engagement even further.

Leadership and development

We offer exciting leadership opportunities around the world and are committed to developing talented leaders. This year we have focused on development and progression across all business divisions. We have done this in a number of ways. More than 1,000 barista maestros, assistant managers and store managers have been developed through one of Costa's management development training workshops and 12 store managers have progressed through our high potential development programme, Shining Stars.

We work hard to encourage and enable moves and promotions across our business divisions, giving our team members the opportunity to develop their careers in stretching roles within a different business unit, including international positions and secondments.

We are passionate about our coffee and have taken over 3,000 baristas through Barista Maestro and Coffee Champion training programmes at our academies, to ensure that perfect hand-crafted coffees are created in all our stores and that we deliver an unbeatable coffee experience.

Skills development

The quality of our coffee and expertise of our baristas are vital to Costa's success. This year we focused on further developing the knowledge of our skills trainers and we have given a facelift to our Newbury training academy with new, more advanced equipment and state of the art technology for the students to experience and learn from. We will shortly open our fifth academy, as demand for development programmes increases.

Job opportunities

With our ambitious growth plans, opening a store almost every day around the world, Costa is creating jobs and careers for thousands of people. In the UK, new openings of Costa stores have created over 1,800 new jobs in 2013/14. New roles have also been added in our Equity business in France, as well as support functions across the globe.



Our baristas enhance the customer experience.

Local communities

Being part of the community is increasingly important to our team members and there is pride and passion for the Costa Foundation. This year, we have responded to teams who want to help the local communities where they work and have launched programmes to deliver this. Costa For Schools is another programme we have introduced. This is a website that informs and educates both teachers and pupils, linking to the national curriculum for geography.

Work experience programmes have been launched across all stores – designed to bring students into Costa and inspire them in the world of work and the possibility of a career with Costa.

We have worked with the Prince’s Trust on ‘Get into Coffee’ programmes, across the country, in Manchester, Leeds, Bristol, Glasgow and Bedfordshire, resulting in young people being offered roles within our stores on completion of the programmes.

Career progression

Katja Bispo do Carmo started her career with Costa in 2006 as a part-time barista while she was studying. Her dedication, hard work and skill saw her progress quickly through store roles as a Barista Maestro and then Assistant Manager in our equity business. Katja then moved to work in one of our individual franchise partner stores as a Store Manager, where her attention to detail and natural coaching ability made her the natural candidate for a key role in the HR team. Katja’s passion for development and drive for excellence in everything she does, led her to be promoted to her current role as Global Brand Excellence Manager. In this role Katja leads a team of six, supporting our franchise partners, as well as our equity and international businesses, to ensure consistency and excellence in Costa brand standards across the globe. She is inspirational to her team and peer group, delivering fantastic results in a way that very much reflects our Costa values.



Opportunities to share in Costa’s success

The Whole Package

Since implementing pay for progression in our UK Retail stores there has been a major shift in the way we reward our baristas after they complete their basic training.

We continue to pay above the national minimum wage and we also offer an incentive scheme called ‘Feel Good’ that all our baristas can participate in. This year, we have significantly improved the scheme, particularly for our Barista Maestro population, in recognition of the level of responsibility in the role.

As part of our continued focus on improving Costa as a great place to work, we have talked to our teams about their ‘Whole Package’ and communicated all the benefits on offer. We have also worked on increasing the base rates of pay for our Barista Maestros and Assistant Managers, and recognising an increase in skill and specialism across our teams.

Reward and recognition

Other ways in which we reward and recognise our teams include campaign incentives, introduced at the beginning of our summer and Christmas campaigns to improve team engagement, enhance the customer experience and drive sales. Across all levels of the business, individuals and teams are recognised through the use of ‘Grazie’ cards, which give a personalised ‘thank you’ message, and recognition pins in the form of flying coffee beans. Many of these individuals and teams are also celebrated at award events held across the business.

Costa Barista of the Year

The 8th annual Costa Barista of the Year competition took place in October 2013 which saw Baristas from across our business come together to compete in the global Champion of Champions final in London. The competition tests competitors’ pride, passion and personality in delivering exceptional coffee experiences. They are judged on their technical skill and coffee knowledge through a range of coffee-based challenges throughout the two-day competition before the winner is crowned Champion of Champions in front of a live audience made up of representatives from across Costa and its supply chain. This year’s winner was Tony Huang, an Assistant Store Manager from Guangzhou Grand View Mall store in China.



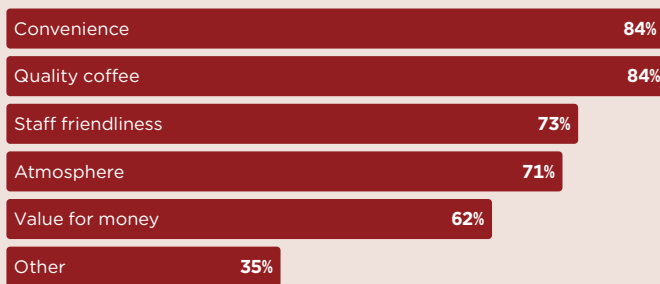
Costa Customer Heartbeat



Social and economic changes have played their part in the phenomenal growth of coffee shop culture around the world. Over the past decade Costa has both benefitted from and fuelled this growth. Going from strength to strength in 2013/14 Costa has cemented its place as the UK's and Europe's leading coffee shop brand and is welcoming more and more customers every day around the world.

Day in and day out, we rely on our 30,000 colleagues across the world and our success is based on delivering a consistently great coffee experience, for each one of the millions of customers who use Costa every month. The secret, in our view, is friendly teams providing service that is fast and efficient for some and warm and friendly for others with more time. Understanding what our customers want is key and our 'Hierarchy of Needs' model is the cornerstone of our business, informing our decision making and focusing our time and energy.

Customer hierarchy of needs



Source: YouGov C-SAT annual data March 2013 to January 2014.



We make it easy for customers to choose Costa.

Making it easy for customers to choose Costa

Customers won't travel too far for a cup of coffee, which is why it is so important to make it convenient for them to choose Costa. The quickest way to get the convenience is through presence and hence our relentless drive to open stores at a fast pace in the UK and overseas. In the UK we have built a network that is bigger than the second and third brands combined. Our success in the UK has allowed us to extend the reach of the Costa brand across the world and develop new channels so that customers in 30 countries can now enjoy the special Costa 'experience'. This year we celebrated the opening of our 1,000th overseas store in Bangkok, Thailand.

We are present across a broad range of channels — from high street to shopping centres, from airports to cinemas, from motorway service stations and drive-thrus to corporate offices, hospitals and health clubs. Costa Express, our self-serve coffee bars, have enabled us to access even more locations and provide customers with a quick and easy way to grab a great tasting Costa coffee on the go. In all, we have nearly 10,000 points of distribution in the UK alone, making it easier for our customers to get a great cup of Costa as part of their daily routines.

Coffee lovers can also enjoy our Tassimo 'Costa at Home' range, which has been on sale in supermarkets for just over a year and already includes the two biggest-selling Tassimo lines in the UK.

Serving only the best quality coffee

Coffee quality is at the heart of what we do and we are passionate about only buying the best beans (only 1% of the world's beans are good enough) and roasting them in our own roastery in London under strict quality control to create our famous unique Mocha Italia blend.

We are constantly looking to enhance the customer experience by giving them more choice of drinks that leverage our superior Mocha Italia blend. In 2013/14 we launched a new range of Mocha drinks as well as launching the popular 'Flat White' in the Emirates market.

Creating a warm and welcoming experience

Of course, what really creates the atmosphere and keeps the customers returning is our people, they provide the Costa magic — the friendly smile and the great service. And this is why we work so hard to ensure that we have highly motivated and engaged teams who always put the customer first. Our 'Listen and Learn' customer insight programme inspires our teams to deliver great customer service as it provides real time customer feedback to each UK store and lets them know directly what their customers are saying about their experience. On average, each store receives 30 unique pieces of feedback each month, providing a snapshot of what is going well, what needs to be improved and opportunities to delight customers even further.

Another important part of the overall customer experience is a store's environment. All our stores must be warm, clean, inviting and geared to meeting the individual customer need, whether that's fast and efficient service for those on the run or more inviting and comfortable for those who wish to relax.

We have distinct store formats that we use around the world. Our 'Evolution' store design is perhaps the most familiar, whilst our 'Metro' design is aimed at city locations potentially with a younger more style-conscious customer demographic. We recently used the 'Metro' design in Paris and Bangkok.



One of our new Paris stores.

Our drive-thru format is proving very successful and we now have 15 stores in the UK and one in the Middle East.

Over the past three years 69% of our UK estate is new or refurbished and in 2013/14 we invested £10 million in refurbishing 139 stores.

Innovating our food and drink to keep customers happy

At Costa we recognise the imperative of a strong focus on innovation to stay ahead of our competition and to keep delighting our customers.



Our Christmas 'character' cups proved extremely popular with customers.

We have not confined our innovation to just coffee and have broadened our range of high quality teas into long jing green tea as well as trialling loose leaf teas.



Costa provides a moment of relaxation.

For the summer months, we added new drinks to our Costa Ice range which achieved record breaking sales in the UK. This year has also seen us putting much greater emphasis on seasonal innovation with the launch of our first Halloween campaign as well as great Christmas 'character' cups that proved extremely popular with customers.



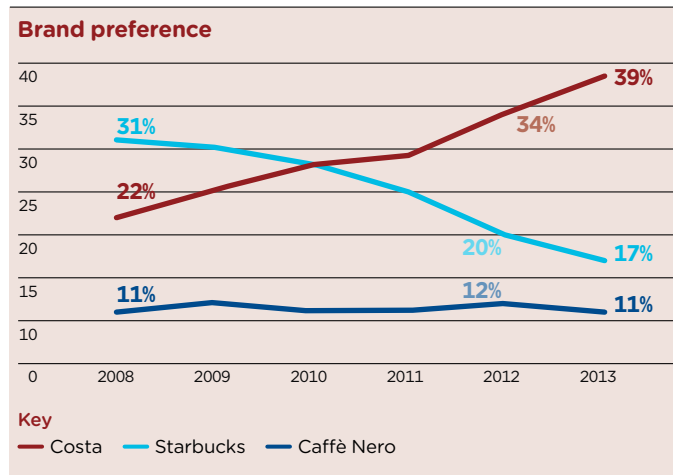
Record breaking Costa Ice sales.

Around 40% of all transactions include food and we have to ensure that we continue to offer customer favourites whilst regularly introducing new and exciting ranges. We have also introduced lower entry point foods, such as small cakes in China, which have driven higher food capture rates.

Costa Customer Heartbeat continued

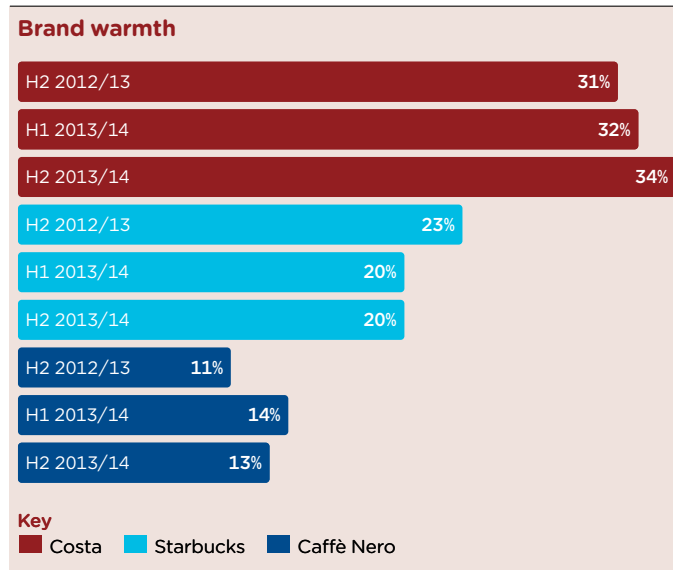
No. 1 UK coffee shop brand

Recognised by YouGov and Allegra as the UK's favourite coffee shop, over the past year Costa has extended its lead in the UK against its two nearest competitors.



Brand preference YouGov U&A annual study, "If there were a Costa, Starbucks and a Caffè Nero next door to each other which would be your first choice to visit for a break and/or a chat?"

Brand warmth, or maybe it is better described as the emotional connection with Costa, is well ahead of our competitors with one third surveyed giving us nine or ten out of ten.



Brand warmth TNS Equity Study, "How do you feel about each of these brands?" percentage scoring nine or ten out of ten.

We've also picked up some major industry awards in the year including the Allegra Strategies award for Best Branded Coffee Shop Chain in Europe and Best Coffee Shop Chain in Europe by the European Coffee Symposium.

Understanding and engaging our customers

Our Coffee Club card is a valuable tool that provides us with real time customer insight and tells us what we are getting right and how we keep them happy in the future. With 2.3 million active card members we receive nearly 48,000 pieces of customer feedback every month. Our 'Listen and Learn' customer insight programme is used to create our guest scores, which have risen by 7% pts to 54% in the year. This is fundamental to our success in creating an emotional connection between our customers and the Costa brand.

Particularly exciting for our Coffee Club members is the recent trial of a mobile app which enables the collection and redemption of Coffee Club points using a mobile phone and we plan to roll this out to all members in 2014/15.

Our social media and digital presence is steadily improving and over the last few months we have achieved over a million Facebook fans. On Twitter we have recently been rated Number 3 on the leader board of 'UK Twitter Customer Care' and are the only coffee shop operators to feature in the Top 100.

A coffee shop is often at the heart of a local community and our Costa teams do some tremendous work in their communities to support local causes, at the same time strengthening customer engagement and connections.



Our teams get involved in their local communities.

Costa Profitable Growth



Costa delivered another outstanding performance during the year, with total sales up 20.1% driven by good like for like growth and a strong store opening programme.

Total system sales, which are sales derived from Costa-owned and franchise stores, grew 19.4% to £1,199.2 million. Following a strong top line performance, underlying operating profit increased by 21.9% to £109.8 million. Once again, a disciplined approach to capital deployment combined with good cash flow generation has increased return on capital by 5.8% pts to 40.5%.

We held an 'Investor Day' in December 2013 and the presentation can be found at www.whitbread.co.uk/investordays

The UK coffee market

Over the last fifteen years there have been a series of social trends which have been of benefit to the coffee shop market. According to coffee experts Allegra Strategies, weekly coffee sales from UK branded chains have grown at a 9% CAGR since 2008 with further growth expected over the next few years. Five years ago there were just under 11,000 outlets in the UK, today there are over 16,000 and by 2018 this is expected to rise to over 20,000. Consumers increasing their knowledge and awareness of coffee, the changing face of the high street to become more leisure orientated and the rise of female spending power and mobile working are cited as some of the major drivers behind the growth of this sector. Our relentless focus on understanding the customer's needs and our rigorous approach to providing excellent execution has played a major part in our success and helped differentiate us from the competition.

Costa UK in numbers				
<ul style="list-style-type: none"> UK's favourite coffee shop with 12% market share.¹ 2.3 million active loyalty card members. 				
£3.82 Average transaction value	68% Sales % eat and drink in	41% Transactions Food capture rate ²	71:29 Sales Drink:Food ratio	49% Sales Coffee as % sales

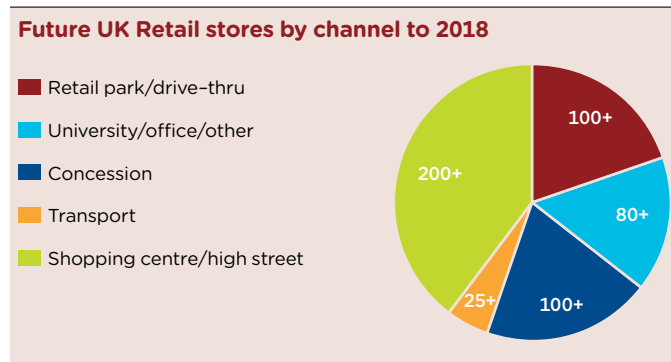
All transaction metrics as at the end of the financial year.

- Allegra Strategies – Project Café 2013 Report, based on turnover.
- Percentage of transactions which include a food item.

Growth milestones

During 2013/14 we continued to invest in our position as the UK's leading coffee shop as well as growing our international presence. We opened 177 net new stores in the UK taking the total to 1,755 and 157 net new stores internationally taking the total to 1,106, leading to a total of 2,861 stores worldwide.

At the end of 2012/13 we extended our growth milestone to double our system sales to around £2 billion by 2018 and for the share of international to grow from 22% to around 33%. Organic growth has underpinned our success in the UK and we expect to open a further 400 to 500 equity stores and 100 new franchise stores over this period. We use the data derived from our Coffee Club card along with detailed demographic analysis across some 40,000 micro markets to plot our UK expansion.



Internationally we are present in 29 countries with a total of 1,106 stores and we expect to open a further 750 to 950 stores by 2018. This includes some 250 to 350 franchise stores, 400 stores in China and 100 to 200 stores in new markets.

The economics of our targets		
	Base economics ¹	Target growth by 2017/18
Costa UK Equity	£94,000 contribution per store	+400 to 500 stores
Franchise	£32,000 contribution per store	+c.100 stores
Costa Express	£6,000 contribution per unit	+2,500 to 3,500 units
Costa International Franchise	£18,000 contribution per store	c.250 to 350 stores
China	£25,000 contribution per store	+c.400 stores
New markets	n/a	+100 to 200 stores
Overheads	£26 million	Grow in steps, slower than sales
Total potential capital investment £330 million to £400 million		

¹ As at the Costa Investor Day on 12 December 2013.

Costa Profitable Growth continued

In addition to our successful roll-out programme, Costa has also delivered 48 quarters of strong like for like growth and we ended 2013/14 with like for like growth of 5.7%, mainly as a result of a 5.0% growth in transactions.

Investment in our stores is a key differentiator and more than 69% of our UK store estate has either been opened or refurbished in the past three years.

International

Internationally we have continued to grow our franchise network in Europe, the Middle East and India, with a net 86 openings outside of the UK. We also entered Spain for the first time and added Thailand to our new South East Asia region.

Progress in Poland has been difficult due to weak consumer confidence, the impact of a VAT increase on milk-based drinks and the distraction to the business as we rebrand from coffeeheaven to Costa. However, market fundamentals are still positive and we remain focused on rebranding the estate and further expanding our presence. China, where we operate two joint ventures, remains an exciting opportunity for the Group. During the year we opened 73 new stores in China taking our total number of stores to 326 in 30 cities. Like for like stores in China made good progress, although some new openings have taken longer than expected to reach maturity.

We remain excited about the international opportunity for Costa and have commenced a programme of opening trial equity stores in France. The first equity store opened in October 2013 and we currently have a total of four equity stores with a further five expected to open in the next 12 months. We also have two franchise stores in France.

Diverse operating model

In addition to our store portfolio, we provide access to Costa through a number of different channels such as Wholesale, Costa Express and Costa at Home. As already stated, Costa Express had a highly successful year adding 955 net new units taking the total to 3,515. We are now in the process of testing our new Costa Express machine which we believe will facilitate growth in new channels, including universities and hospitals, as well as spearhead our international expansion. Through this, we see the opportunity for an additional 2,500 to 3,500 units by 2018.

Number of Costa stores worldwide

2013/14	2,861
2012/13	2,527
2011/12	2,203
2010/11	1,871



Our innovative new Costa Express machine launched in 2013/14.

Costa Good Together



Team and Community		
<p>Approach We will develop our people and support the community.</p> <p>Programmes</p> <ul style="list-style-type: none"> Charitable giving Job and career development Community engagement 	<p>Aim by 2017</p> <ul style="list-style-type: none"> The Costa Foundation will build 50 schools to educate 50,000 children. Provide enhanced skills training to 20,000 team members. Give our team members over 5,000 management progression opportunities. 	<p>Progress 2013/14</p> <ul style="list-style-type: none"> Over £1.5 million raised for the Costa Foundation. An additional eight school projects have been completed with six more still under construction. Since the year-end, six more projects have been approved and are at planning stage with committed funding in place bringing support from the Costa Foundation to 52 communities in eight countries around the world. The Costa Foundation has now provided access to education to nearly 26,000 children. Costa skills training programmes have now enhanced the capability of 10,000 baristas across the UK. Our management development programmes have now reached over 3,000 people. More than 1,800 new UK jobs have been created in new Costa stores.
Customer Wellbeing		
<p>Approach We will be proud of the provenance of our products.</p> <p>Programmes</p> <ul style="list-style-type: none"> Sustainable sourcing Menu development Customer education 	<p>Aim by 2017</p> <ul style="list-style-type: none"> All our hot drinks will be sustainably sourced and certified. Our products will be locally/ethically sourced wherever possible. We will improve the nutritional value of our products and enable our customers to make a fully informed choice when they visit our stores. 	<p>Progress 2013/14</p> <ul style="list-style-type: none"> All of our coffee comes from Rainforest Alliance Certified farms. A similar commitment to cocoa for our hot chocolate powder has been made for 2014 production. Costa became the first UK coffee shop brand to carry front of pack nutritional value information on our food products. Our developments in packaging production this year helped reduce card waste by a further 18 tonnes per annum. Accreditation was received from the Sustainable Restaurant Association for work in sourcing, social and environmental practices.
Environment		
<p>Approach We will achieve the lowest environmental impact we can.</p> <p>Programmes</p> <ul style="list-style-type: none"> Consuming less Waste reduction Influence in partnership 	<p>Aim by 2017</p> <ul style="list-style-type: none"> 25% carbon reduction from direct operations (relative to sales against a 2009 baseline). Zero waste to landfill (from UK equity stores). We will provide clear guidance to our partners to achieve similar results. 	<p>Progress 2013/14</p> <ul style="list-style-type: none"> Costa's carbon reduction activities in UK stores have now reduced emissions by 28% versus a 2009 baseline relative to sales. A new target will now be set. The ISO 50001 registered roastery has continued to make carbon reductions. Recent changes to coffee packaging has reduced emissions from its manufacture by 5% whilst saving 1,000s of litres of ink. 40% of the energy used in Costa-owned stores coming from renewable sources. Diversion from landfill has increased once again with 67% of all waste from Costa-owned stores diverted from landfill. Costa's jute coffee sacks continue to be recycled and 114,000 of them contributed to the high quality carpet underlay used in Premier Inn hotels. This year Costa introduced a new uniform and by back-hauling the old garments were able to recycle nine tonnes of fibre which was used as sound proofing in motor car manufacture.

Risk management



Effective risk management is vital to the successful delivery of Whitbread's strategy and helps us create legendary brands across all of our businesses. The principal risks to the achievement of our strategy have been identified.

	Risks linked to strategy
Winning Teams	<ul style="list-style-type: none"> Health and safety risks Management retention
Customer Heartbeat	<ul style="list-style-type: none"> Health and safety risks Reputational risk Market risk
Profitable Growth	<ul style="list-style-type: none"> Financial risk Third-party risk Operational risk
Good Together	<ul style="list-style-type: none"> Food provenance

Structure

Whitbread's approach to risk management has been reinvigorated this year, with additional focus being placed on ensuring there is a consistent methodology used across each business.

The structure and governance over the risk management process at Whitbread is shown in the diagram on page 31. Both Whitbread Hotels & Restaurants and Costa maintain risk matrices aligned to their own business model. These matrices analyse the risks to the achievement of each business's strategic goals and prioritise those risks using a four level impact and likelihood scale.

The matrices, together with the detailed risk registers containing current controls, mitigating actions and planned future actions, are reviewed on a regular basis by the management board of each business. The outputs of the process carried out by the businesses form the basis of the risk matrix for the Group. In addition a top-down risk assessment exercise is conducted, to capture the Board's views on the principal risks facing Whitbread.

The most significant business-level risks are included in the Group risk matrix, together with other risks identified by the Executive Committee. The Group risk matrix is reviewed on a quarterly basis by the Board and annually by the Audit Committee.

The process:

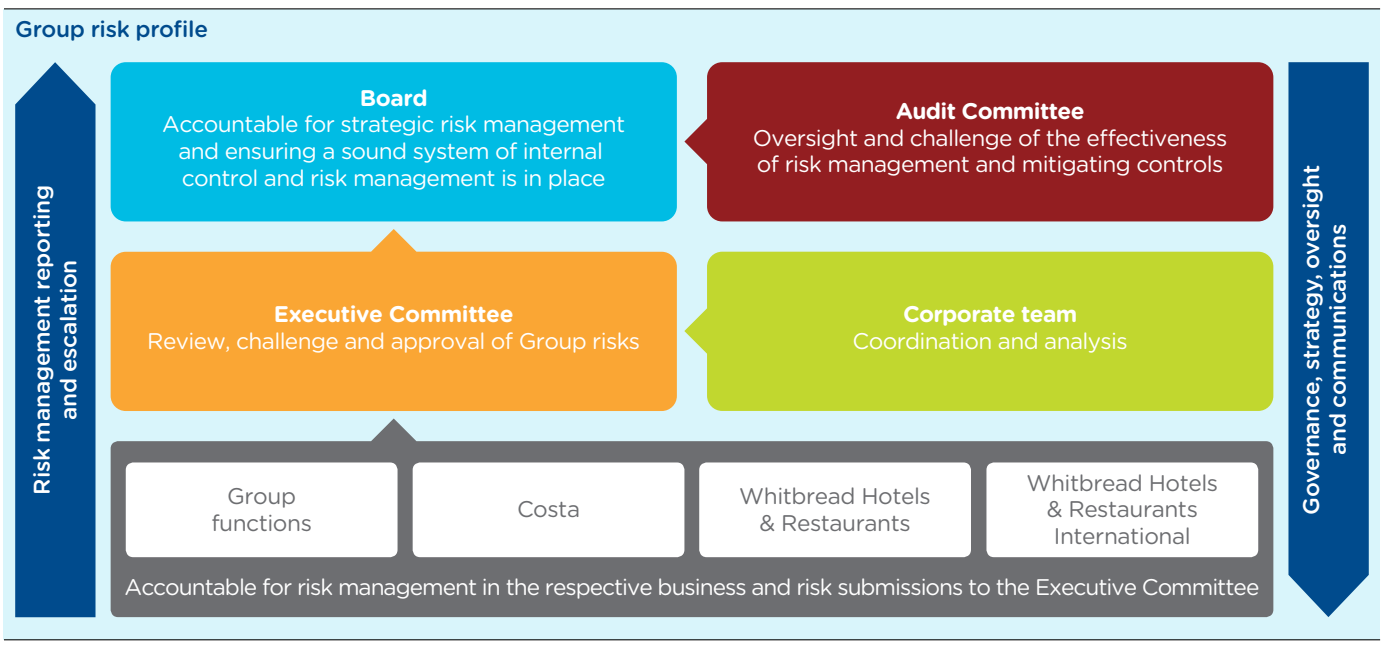
- identifies risk to the achievement of strategy;
- assesses risks based on the impact and likelihood of a risk occurring on a gross (before taking controls and mitigating factors into consideration), net (post control and mitigation) and target basis;
- outlines key controls and mitigating factors;
- assigns a risk owner to each risk; and
- ensures that risks, controls and mitigating factors are reviewed quarterly and updated as necessary.

The risk and control matrices form the basis of the annual assurance plan, which provides for the independent testing of controls and mitigating actions by NSF (an independent health and safety auditing company), the Company's internal control evaluation process or PwC as part of the operational audit programme.

The current status

In total, there were 16 risks (2013: 21 risks) identified on the Group risk matrix considered by the Audit Committee in March 2014. After taking account of the controls and mitigation plans the Audit Committee and the Board considered that six of the risks would be either unlikely to occur or would have a low impact. For this reason, these risks have not been categorised as principal risks for the purposes of this report.

The ten principal risks identified, together with a summary of controls, mitigation and assurance plans are summarised on pages 32 and 33. None of these risks are considered to have a high likelihood of occurring after taking account of controls and mitigation. The new risks included since last year's report include the potential for death or serious injury as a result of Company negligence, the inability to operate the Costa roastery for an extended period and two information systems risks relating to the Premier Inn booking system and the ineffective implementation of a major systems upgrade.



Our food development teams follow stringent food safety policies and a detailed sourcing policy.



We have developed a detailed contingency plan for Costa's roastery in Lambeth.



Risk management continued

Principal risks

Risk	Mitigation controls	Monitoring and assurance	Current trend
Health and safety risk: death or serious injury as a result of Company negligence.	<p>Expertise of the Whitbread safety and security team.</p> <p>External risk engineering programme.</p> <p>Extensive health and safety policies and training.</p>	NSF, an independent company, carries out health and safety audits on every site. Health and safety is a hurdle on the WINcard. Regular updates are provided to the management boards and to the Board.	Stable
Health and safety risk: serious health or provenance issue relating to food.	<p>The expertise of members of the procurement, food development and safety and security teams.</p> <p>Stringent food safety policies and a detailed sourcing policy.</p> <p>New traceability and testing requirements introduced in respect of meat and other products.</p> <p>Focus on predicting other potential issues in the supply chain.</p>	NSF, an independent company, carries out regular audits on all suppliers to measure their performance against a range of health and safety standards. Health and safety is a hurdle on the WINcard. Regular updates are provided to the management boards and to the Board.	Stable
Market risk: improvement in competitor financial health and/or competitor activity results in a loss of market share.	<p>Actions to outperform the competition are developed on a strategic and tactical basis. Significant customer research is carried out. The customer insight received is used to develop action plans. Consumer trends, both in the UK and overseas, are analysed and competitor activity is monitored. Monthly reports are produced by each business for the Board.</p>	Relative market share information and timely trading performance data is produced and monitored by the executive teams and the Board.	<p>Premier Inn Improving</p> <p>Restaurants Improving</p> <p>Costa Stable</p>
Financial risk: significant increase in the pension scheme's actuarial and/or accounting deficit resulting in higher pension contributions or the re-rating of the Company's credit.	<p>The Company's defined benefit pension scheme is closed to new members and, for future service, to existing members. The Pension Investment Committee and its advisers, as well as the internal pensions team, have significant expertise in the area and provide good quality oversight. The investment strategy has been designed to reduce volatility and risk and hedging opportunities are utilised as appropriate. The Finance Director attends Pension Investment Committee meetings.</p>	The Pensions Director and the external pensions advisers to the Company report regularly to the Board on the funding level and investment strategy of the fund.	Stable

Risk	Mitigation controls	Monitoring and assurance	Current trend
Third-party risk: third-party failing and consequently breaching the terms of a significant contract or giving rise to a privity of contract claim.	Credit control checks are carried out on parties to significant contracts, along with the continued auditing and monitoring of those contracts. Regular reviews are carried out on the potential for privity of contract claims and, when they are received, all efforts are made to lessen the financial liability through negotiation with the landlord or sale of the lease.	Asset management team and credit controllers monitor risks. There is a regular review of the debtors' registers by the management boards. Financial controllers review status at half and full-year.	Stable
Operational risk: loss of, or failure to attract, key employees.	It is important that the Company continues to offer key employees appropriate levels of reward and recognition in order to retain them. The Company's programme of development and talent planning delivers a strong succession plan.	The Group HR function monitors the number of key employees leaving the Company and conducts exit interviews to understand the reasons. Succession plans are reviewed regularly.	Stable
Operational risk: inability to operate the Costa roastery for more than one week.	Long standing and experienced workforce. Contingency plan, including for coffee to be roasted elsewhere if required.	Regular testing of contingency plan. Independent risk engineering report provided.	Deteriorating
Information systems risks: <ul style="list-style-type: none"> • disruption to the business due to ineffective implementation of a major systems upgrade or installation; • data security breach resulting in the loss of, or improper access to, customer or confidential data; or • failure of the Premier Inn booking system. 	The expertise of the IS team in protecting the systems and network. IS security training has been delivered to employees. Third-party expertise is utilised as appropriate. Legal advisers monitor new legislation and advise the IS team.	Systems are continually monitored for irregular activity. Operational audit reviews. The disaster recovery plans are reviewed by the Audit Committee. Regular reporting of information security issues to management.	Stable

Key Performance Indicators



Our key performance indicators are based on the strategic framework of the Company – Winning Teams, Customer Heartbeat, Profitable Growth and Good Together. Behind each of these headings are clear and measurable targets which together make up our balanced scorecard or WINcard as we call it (Whitbread In Numbers). It is used throughout the Company. Every hotel, restaurant and coffee shop has its own WINcard. All support centres, each business and the Group as a whole have their own WINcards. Every month the results are published throughout the Group so that everyone knows exactly how they are doing against the key targets for the year.

As these are key strategic measures a number of them form an important part of the incentive schemes for our teams. Details of how the executive directors are rewarded for their WINcard performance are described in the remuneration report on page 68.

The WINcard targets are set at the beginning of each year and agreed with the Remuneration Committee. They are usually set above the level achieved in the previous year to improve performance. In general, a green WINcard is achieved where the performance is better than both target and the previous year. An amber score is for performance which is better than the prior year but below target and a red score is for a result below the previous year.

Winning Teams	
<p>Team engagement Engagement measures how our teams feel about working for the Company. We find out by asking everyone in the Company to complete a survey twice a year that asks questions that give us a very clear idea as to how they are feeling at that time.</p>	<p>Health & Safety Nothing could be more important than the safety of our teams and our customers. Independent audits are carried out throughout the year to check that standards are being maintained with certain key areas resulting in automatic failure if they are not met.</p>
<p>Why this is important We want our people to enjoy what they do and to know we will work to improve things if they tell us they are not happy. We also know that the happier our teams feel about their work the better they will serve our customers. We will attract as well as retain great people if we can achieve high levels of engagement.</p>	<p>Why this is important Our people have a right to work in a safe environment and our customers rightly expect us to look after them when they choose to sleep, eat or drink with us. A significant health and safety failure would also affect confidence in our business.</p>
<p>How we have done in 2013/14</p> <p>Group 80.3%</p> <p>Hotels & Restaurants 79.5%</p> <p>Costa 82.4%</p>	<p>How we have done in 2013/14 We strengthened the targets this year and also increased the proportion of sites required to pass the audit for each business to achieve a green score. Both Costa and Hotels & Restaurants exceeded the tougher targets set.</p>
<p>WINcard results</p> <ul style="list-style-type: none"> ● Group ● Hotels & Restaurants ● Costa 	<p>WINcard results</p> <ul style="list-style-type: none"> ● Group ● Hotels & Restaurants ● Costa
<p>Our goals for 2014/15 Team engagement is important to us, and remains on the WINcard. However, it has been replaced as an incentivised measure for 2014/15 by team turnover, as we refresh our team engagement methodology.</p> <p>Team turnover targets are: Group 40.2%; Premier Inn 38.0%; Restaurants 45.0%; and Costa 39.2%.</p>	<p>Our goals for 2014/15 We intend to continue to achieve the tough targets, which were strengthened significantly in 2013/14.</p>



Customer Heartbeat		
<p>Brand standards – Costa Our customers rightly expect a consistently high standard of service and physical surroundings in our coffee shops. We have developed brand standards, which are designed to ensure we meet our customers' expectations.</p>	<p>Family measures – Hotels & Restaurants The provision of a quality restaurant is important to our Premier Inn guests and our joint site model provides us with good synergies.</p>	<p>Brand performance With our aim to make everyday experiences special it is vital that we have a robust way of measuring how our customers rate our performance in terms of recommendations and preference over other brands.</p>
<p>Why this is important We know that our customers have a choice when they are choosing a coffee shop and that we have to be able to show that we operate at consistently high levels that make them want to choose us.</p>	<p>Why this is important Measures have been developed to make sure that our Premier Inn and Restaurants teams work well together for the benefit of guests. For Premier Inn, we measure the proportion of guests that have breakfast in the restaurant. We audit breakfast standards for Restaurants.</p>	<p>Why this is important Without this information we would not be able to measure and improve our customers' experience or compare the experience we provide to that provided by our competitors.</p>
<p>How we have done in 2013/14 Costa 92.1%</p>	<p>How we have done in 2013/14 Premier Inn 66.5% Restaurants 59.3%</p>	<p>How we have done in 2013/14 Each of the businesses has developed its own customer measures which track elements particularly relevant to them. Costa had an average brand preference score of 37.3% during the year which was better than Starbucks, Premier Inn had a net recommend score of 59.8% and Restaurants achieved 66.1%. The Group score is a combination of the Costa and Hotels & Restaurants scores.</p>
<p>WINcard results ● Group¹ ● Costa</p>	<p>WINcard results ● Hotels & Restaurants</p>	<p>WINcard results ● Group ● Hotels & Restaurants ● Costa</p>
<p>Our goals for 2014/15 The brand standards measure for Costa has been replaced as an incentivised measure for 2014/15 by a net recommend target based on the Costa Listen and Learn programmes. The target is 57.7%.</p>	<p>Our goals for 2014/15 The target for the year ahead is to improve on each measure by 1% pt.</p>	<p>Our goals for 2014/15 Costa's target is to further improve on its brand preference score and also to stay ahead of Starbucks. Restaurants has a target of 67.1% for net recommend in the first half. The Premier Inn net recommend measure has been replaced with a new target to reduce the number of guests scoring zero to six out of ten to 8.9%.</p>

¹ The Group WINcard result shown under brand standards was a combination of the Costa brand standards score and the Hotels & Restaurants family measures.

Key Performance Indicators continued



Profitable Growth		
<p>Profit As with all businesses we measure our financial success by the profits we make through growing our brands and operating our businesses efficiently. A budget is agreed with the Board each year which sets a target profit level.</p>	<p>Like for like sales growth We closely follow the sales growth performance of those hotels, restaurants and coffee shops that have been open for more than a year.</p>	<p>Market performance/growth Our strategy is based on the profitable growth of our brands which we measure in terms of our sales growth per available room compared to our competitors in hotels and the number of net new stores in Costa.</p>
<p>Why this is important Recognising that our shareholders have a choice in investing their money we need to be able to demonstrate that our businesses can produce sustainable profit growth. This should mean that the underlying value of the Company will increase and dividends can be paid in line with that growth.</p>	<p>Why this is important While we are investing so much in the organic growth of Hotels & Restaurants and Costa we need to keep a close eye on how the mature parts of the business are performing. This enables us to make better investment decisions in terms of our new developments as well as being able to react to shorter-term performance trends.</p>	<p>Why this is important We need to be able to understand how we are performing on a constant basis to show our shareholders how we are performing against the rest of the market and to develop our strategy accordingly.</p>
<p>How we have done in 2013/14 We grew our Group underlying profit before tax by 16.5% last year, with Hotels & Restaurants growing its profits by 11.2% and Costa by 21.9%.</p>	<p>How we have done in 2013/14 The strength of our brands has meant we have beaten our like for like sales targets across the Company with Group at 4.2%, Hotels & Restaurants at 3.7% and Costa at 5.7%.</p>	<p>How we have done in 2013/14 We opened 334 net new Costa stores worldwide, which was more than in the prior year, but marginally below our target of 346 stores. We grew market share in Premier Inn, with 4.3% RevPAR growth and an increase of 3,364 net new rooms. Our budget competitors grew RevPAR by 8.3% from a low base.</p>
<p>WINcard results</p> <ul style="list-style-type: none"> ● Group ● Hotels & Restaurants ● Costa 	<p>WINcard results</p> <ul style="list-style-type: none"> ● Group ● Hotels & Restaurants ● Costa 	<p>WINcard results</p> <ul style="list-style-type: none"> ● Group ● Hotels & Restaurants ● Costa
<p>Our goals for 2014/15 Our profit targets are commercially sensitive. They will remain stretching, but achievable.</p>	<p>Our goals for 2014/15 Our like for like sales targets are commercially sensitive but are set in the budget process against a realistic but stretching view of the markets in the coming year.</p>	<p>Our goals for 2014/15 These targets are commercially sensitive but are set in the context of continued brand growth and outperformance.</p>



Returns on investment

A crucial factor in measuring our performance is how well we have invested our shareholders' money. We calculate this by dividing the underlying profit of an asset or business by the capital value of the asset it has been invested in.

Why this is important

Our investors want to be able to judge how well we are using their money in comparison to other investments that they could make. We also want to be able to compare the performance of different types of businesses and assets to focus our own plans, and measuring returns helps us to do so.

How we have done in 2013/14

The Group returns grew from 13.9% to 15.3%. Hotels & Restaurants return on capital grew from 12.4% to 13.3% and Costa grew returns from 34.7% to 40.5%.

Return on capital is an important indicator used when considering all investment decisions and is a key measure for the Company's Long Term Incentive Plan, but is not on the WINcard.

Our goals for 2014/15

We want to make more profit from an investment than it costs to raise the money to pay for it whether it has been borrowed, invested as equity or paid as rent.

Good Together

Carbon consumption/waste to landfill

Our corporate responsibility programme covers a number of areas against which we measure ourselves. Hotels & Restaurants has a carbon reduction target and Costa has a target to divert waste from landfill.

Why this is important

Companies have a responsibility to reduce their impact on the environment which we fully endorse. There are also clear economic benefits in reducing carbon consumption primarily through reduced energy bills.

How we have done in 2013/14

Costa now diverts 67.0% of waste from landfill, which is in excess of the 64.0% target. Hotels & Restaurants achieved a 6.1% reduction in like for like carbon consumption versus a target of 3.0%.

WINcard results

- Group
- Hotels & Restaurants
- Costa

Our goals for 2014/15

Hotels & Restaurants has an annual targets of a 3% reduction in like for like carbon consumption. Costa's target is to reach 72% of waste diverted from landfill next year.



Our Restaurants business achieved record guest scores.

Finance Director's review



Nicholas Cadbury
Finance Director

Whitbread has continued its strong financial performance, with revenue up 13.0% to £2.3 billion, underlying profit before tax up 16.5% to £411.8 million, operating cash flow (before pension payments) of £601.3 million up 14.3% and underlying basic earnings per share up 20.1%.

Revenue

Revenue by business segment

	2013/14 £m	2012/13 £m	Change %
Hotels & Restaurants	1,494.0	1,360.1	9.8
Costa	807.7	672.4	20.1
Less: inter-segment	(2.8)	(2.5)	
Revenue before exceptional	2,298.9	2,030.0	13.2
Exceptional revenue	(4.6)	—	
Revenue	2,294.3	2,030.0	13.0

Hotels & Restaurants

Revenue rose to £1,494.0 million, up 9.8%, with Premier Inn growing by 13.4% and Restaurants by 3.9%.

Premier Inn UK grew its market share with total sales of £966.1 million. We opened 28 hotels with 3,546 new rooms increasing our rooms stock by 6.5% to 55,035. Like for like sales grew by 5.0% driven by an increase in the like for like revenue per available room of 4.3%. Internationally we opened two new hotels one in Abu Dhabi and the other in Pune, India. Restaurants like for like sales grew by 1.6% and eight new restaurants were opened during the year.

Hotels & Restaurants in the UK had a particularly strong fourth quarter, with like for like sales growth of 7.3% compared to 2.7% for the previous three quarters. This was caused by a combination of successful Christmas and New Year campaigns, unusually benign weather in January and February and softer comparatives last year. We also experienced higher than expected sales and margins in the quarter due to strong average room rates in the hotel market and less promotional discounting in Restaurants.

Costa

Costa's revenue grew by 20.1% to £807.7 million continuing to benefit from the socio-economic changes favouring coffee shops, further strengthening of the consumer's preference for the Costa brand and a growing estate both in the UK and internationally. Costa's UK sales grew to £708.1 million, up 19.6%, with retail like for like sales increasing by 5.7% and 177 net new UK coffee shops. International sales grew to £99.6 million with 157 net new stores. Costa Enterprises grew strongly with 955 net new Costa Express coffee machines taking the total to 3,515, with 178 installed internationally.

Profit

Underlying profit by business segment	2013/14 £m	2012/13 ¹ £m	Change %
Hotels & Restaurants – UK and Ireland	354.1	319.2	10.9
Hotels & Restaurants – International	(6.0)	(6.1)	1.6
Totals Hotels & Restaurants	348.1	313.1	11.2
Costa	109.8	90.1	21.9
Profit from operations	457.9	403.2	13.6
Central costs	(27.2)	(26.2)	(3.8)
Underlying operating profit	430.7	377.0	14.2
Interest	(18.9)	(23.6)	19.9
Underlying profit before tax	411.8	353.4	16.5

¹ Restated for the impact of IAS 19 (revised 2011).

Whitbread's underlying profit before tax was up 16.5% to £411.8 million. Underlying profit before tax excludes the pension interest charge, the amortisation of acquired intangibles and exceptional items.

Hotels & Restaurants profits grew to £348.1 million up 11.2% with the UK profits up 10.9% to £354.1 million. Due to the particularly strong fourth quarter, UK profits were up 15.2% in the second half of the year compared to 7.9% in the first half. Rent costs increased by 27.5% to £88.5 million, reflecting the higher mix of leasehold openings. Our depreciation and amortisation charge also rose above the rate of sales at 15.2% to £98.6 million (2012/13: £85.6 million) as we aligned our depreciation period to our new refurbishment cycle, reducing a room's economic useful life from 15 to 12 years. This change is applied to this and future years such that there is incremental depreciation of £6.0 million in 2013/14 and 2014/15.

As we continue to invest in our customer offering we will increase our refurbishment programme in 2014/15 to approximately 12,700 rooms (5,433 in 2013/14) carrying out both a light and full programme and installing some 2,500 air conditioning units. In addition we will upgrade our customer Wi-Fi offering and increase our revenue investment in technology and process improvements as we evolve our systems to support future growth. These revenue investments will amount to approximately £10.0 million in 2014/15.

International hotel losses were £6.0 million with good progress in the Middle East. In 2014/15 we will continue our development of South East Asia with further revenue investments to create an operational hub.

Costa's strong performance was led by UK Retail and Costa Enterprises with profits increasing by 26.5% to £110.9 million. Internationally Costa made a loss of £1.1 million (2012/13: profit £2.4 million). We improved profitability in the Middle East, in our European franchises and in the like for like stores in China. Offsetting this, we are continuing to invest in new stores, the infrastructure and team in China and we have also invested in the start up of our equity business in France. In Poland we have seen a decline in our like for like sales and our profitability caused by a weak macro environment, an increase in VAT on milk based drinks, which took affect in April 2013, and some disruption as we reviewed our estate and rebranded the stores to Costa. These latter activities continue into the new year.

Total profit after tax and exceptional items was £323.4 million up 10.7% on last year.

Interest

The underlying interest charge for the year was £18.9 million, a reduction of £4.7 million compared to last year. This resulted from the decrease in the proportion of fixed interest rate debt following the maturity of a number of fixed rate swaps in December 2012 and the strong cash flow generated in the year reducing net debt by £79.5 million to £391.6 million. The effective interest rate on average net debt reduced from 4.8% to 4.7%.

The total pre exceptional interest cost is £42.5 million (2012/13: £50.6 million) including the IAS 19 pension finance charge of £23.6 million (2012/13: £27.0 million).



Exceptional items

Exceptional items for the year amounted to a benefit of £25.9 million. Full details are set out in Note 6 to the financial statements.

There are a number of significant items. The first item relates to a £18.6 million release of the deferred tax liability following a reduction in the corporation tax rate from 23% to 20%. Secondly, we reassessed the indexation allowance on rolled over capital gains which gave rise to a further £40.2 million release of deferred tax liability. Thirdly, there is a net impairment charge and loss on disposals of £31.9 million of which £10.5 million relates to the reorganisation of our Costa Poland business and £6.8 million relates to additional provisions relating to property reversions. Lastly, in previous periods the Group disclosed a contingent liability in respect of a claim for repayment of VAT on gaming machine income of £4.6 million. Following the Court of Appeal decision in October 2013 in favour of HMRC against the Rank Group Plc, Whitbread has decided to recognise this expected cash outflow plus a further amount of £1.1 million in respect of interest on late payment.

Taxation

Underlying tax for the year amounts to £94.1 million, an increase of 3.6% on the prior year. The effective tax rate was 22.9% (2012/13: 25.7%) following the reduction in corporation tax rates and one off adjustments in respect of previous years crediting the tax charge by £4.7 million.

Earnings per share

Underlying earnings per share for the year is 179.02p up 20.1% on last year as a result of the strong profit growth, combined with a lower effective tax rate as explained above. Underlying diluted earnings per share for the year is 177.14p up 19.8% on last year.

Dividend

The recommended final dividend is 47.00p, an increase on last year of 24.0%, making the total dividend for the year 68.80p up 19.9% in line with the Group's basic earnings per share growth. With the final dividend we will offer our shareholders the option to participate in a dividend reinvestment plan. The scrip plan has been terminated.

Net debt and free cash

The principal movements in net debt are as follows:

	2013/14 £m	2012/13 £m
Cash flow from operations before pension	601.3	526.0
Capital expenditure	(306.2)	(343.6)
Overseas investment	(1.6)	(4.8)
Disposal proceeds	1.0	51.0
Interest	(19.1)	(26.2)
Tax	(81.4)	(46.7)
Pensions	(71.2)	(45.7)
Dividends	(62.4)	(77.8)
Other	19.1	1.0
Net cash flow	79.5	33.2
Net debt brought forward	(471.1)	(504.3)
Net debt carried forward	(391.6)	(471.1)

Cash generated from operations before pension increased by 14.3% to £601.3 million. This strong cash flow enabled Whitbread to fund its growth from internal resources, grow its dividend and reduce its net debt. Investment in capital expenditure was £306.2 million (2012/13: £343.6 million) ensuring that the Group continued to grow its market share through new site developments whilst improving the existing estate. The pension payments were £71.2 million with the defined benefit contribution being in line with the triennial scheduled payments agreed with the pension trustee in 2011.

Dividend payments amounted to £62.4 million. In the year there was a high take up of the scrip dividend at 41.6%. The gross dividend payment without the scrip dividend would have been £106.9 million. It should be noted that the dividend reinvestment plan will replace the scrip dividend for the final dividend payment.

Corporation tax paid in the year was £81.4 million (2012/13: £46.7 million).

As a result of the strong cash flow, net debt as at 27 February 2014 reduced by £79.5 million to £391.6 million (2012/13: £471.1 million).

Capital expenditure

On an accruals basis, the Group's capital spend was £336.6 million (2012/13: £341.1 million).

The Group's cash capital expenditure was £306.2 million, with £231.1 million in Hotels & Restaurants and £74.2 million in Costa. Capital expenditure is split between expansionary (which includes the acquisition and development of properties) and maintenance.

Expansionary cash expenditure was £199.7 million (2012/13: £220.1 million). Of this £147.4 million relates to Hotels & Restaurants, supporting the 3,955 gross new rooms worldwide and eight new restaurants. Of this amount we spent £127.8 million on freehold property (2012/13: £134.0 million). Freehold property remains Whitbread's preferred route to market for Hotels & Restaurants. It provides operational flexibility to develop the property to our requirements and the financial benefits of retaining a greater share of the value generated from the sites' performance.

Costa spent £52.3 million (2012/13: £61.9 million) on the opening of 423 gross new coffee shops and 1,149 gross new Costa Express machines. The lower spend this year was principally due to the timing of the rollout of Costa Express machines.

Maintenance cash expenditure was £106.5 million (2012/13: £123.5 million). In Hotels & Restaurants, cash expenditure was £83.7 million compared to £103.1 million last year with an additional c.£30 million due to be paid in 2014/15 relating to refurbishments carried out at the end of 2013/14. In Costa we spent £21.9 million (2012/13: £18.2 million), a considerable amount of which was upgrading 139 Costa UK stores.

In 2014/15 we plan to open c.4,500 UK hotel rooms, with approximately 70% opening in the second half. Costa is planning to open c.300 coffee shops and install around 600 Costa Express machines. Our committed UK hotel pipeline is made up of 75% leasehold properties which will result in Hotels & Restaurants' rent increasing by approximately £20 million. We expect capital expenditure to be around £360 million with the exact amount depending on the timing of freehold land acquisitions.

Pension

As at 27 February 2014, there was an IAS 19 pension deficit of £534.3 million (2012/13: £541.7 million). The decrease on last year was mainly as a result of the strong asset performance and the cash contribution of £71.2 million from the Company, partially offset by an increase in the liability due to a reduction in the discount rate from 4.60% to 4.30%. The next triennial actuarial pension review will be based on a valuation as of 31 March 2014.

Financial status and funding

Whitbread aims to maintain its financial position and capital structure consistent with retaining its investment grade status. To this end we work within a financial framework of net debt to EBITDAR (pension and lease adjusted) of less than 3.5 times.

In January 2014 we announced that Whitbread had signed an amendment to its existing £650 million syndicated bank facility, extending its maturity by two years to 4 November 2018, and introducing two options to extend it by a year sequentially beyond that date, with the consent of the banks. The facility pricing remained unchanged. The maturity extension of the loan facility, together with our existing private placement notes, has ensured that the Group has access to facilities to meet the needs of our growth programme.

Return on capital

Return on capital is a prime focus for Whitbread. In the year the Group's return on capital improved by 1.4% pts to 15.3% with Costa's returns up 5.8% pts to 40.5% and Hotels & Restaurants up 0.9% pts to 13.3%. Of the 1.4% pts improvement to the Group's return, 0.6% pts was due to the higher mix of leases within our Hotels & Restaurants estate.

Nicholas Cadbury

Finance Director
28 April 2014

HR Director's report



Louise Smalley
Group HR Director

At its heart, Whitbread is a people business. We believe that creating a great place to work, supporting our people to realise their full potential and building leadership strength is vital to the success of the Company.

We ensure that we recruit the best people and invest in training and development to grow talented future leaders. We believe in equal opportunities for all. Further details of how we build our engaged teams in both Hotels & Restaurants and Costa can be found on pages 12 to 13 and 22 to 23 respectively.

Diversity

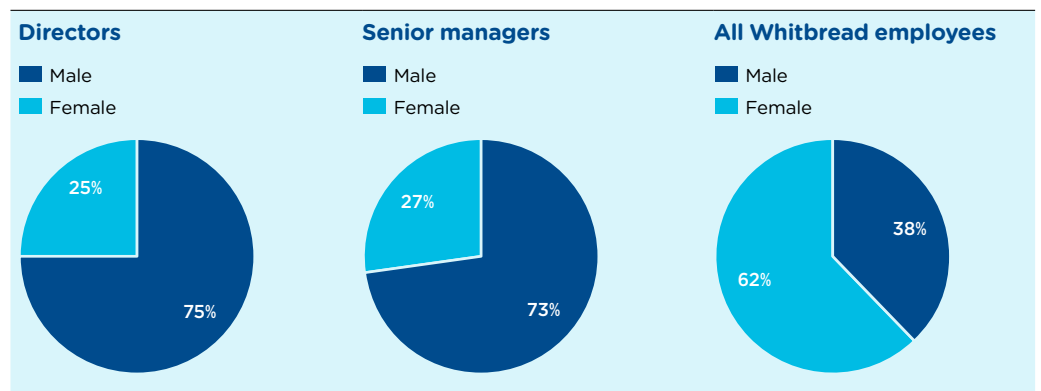
We operate in a number of countries working with people, customers and suppliers from a broad range of backgrounds and cultures. We believe that a diverse organisation encourages a full range of ideas and leads to better decision making.

In order to champion the importance of diversity within all levels of the business, we have established a cross business diversity group that meets on a quarterly basis with attendees representing different areas of the business.

Various matters are discussed during these meetings and actions during the year have included:

- development of diversity targets and plans for each business;
- a review of recruitment strategies and processes; and
- a review of the maternity and paternity policies.

A breakdown of gender, split between directors of the Company, senior managers (defined as those in the Directors' Forum) and all Whitbread employees as at 27 February 2014 is set out below:



Diversity is discussed regularly by the Executive Committee and reports are received and discussed by the Nomination Committee.

The strategic report on pages 6 to 43 was approved by the Board and signed on its behalf by Simon Barratt, General Counsel and Company Secretary on 28 April 2014.

Internal policies

We have a range of policies and programmes which are regularly reviewed and communicated to employees through various training modules. These include our Code of Conduct, human rights, anti-bribery, hospitality and gifts, and anti-fraud and theft policies.

Code of Conduct and human rights

We recognise the importance of taking care of our people by providing a healthy and safe working environment and working responsibly to be a positive part of the communities in which we operate.

We have updated our Global Code of Conduct, which is applicable to all employees in all countries. This outlines the expected standards of behaviour and the core values of the Company. The Code of Conduct also includes details of our independent speaking out service, enabling employees to report any concerns regarding harmful behaviour or conduct in a confidential manner.

Everyone deserves the right to live and work with dignity. There are basic standards of human rights that Whitbread respects at all times. These relate to issues such as child labour, humane treatment, working conditions and fair pay. We expect our business partners to respect these standards and we will only work with organisations that have the same respect for people's working conditions that we do.

Our environment

The impact of our business on the environment and the communities in which they operate is a key part of our business model and is incorporated in the Good Together element of the Customer Heartbeat diagram. Further details regarding Good Together in Hotels & Restaurants and Costa can be found on pages 19 and 29 respectively.

Disclosures regarding our Greenhouse Gas emissions as required by the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013 can be found on pages 79 and 80.

Awards and recognition

We believe that Whitbread is a great place to work and I am proud to report that we were recently ranked 8th in The Sunday Times Best Big Companies to Work For 2014 and were recognised as the third top employer in the UK by the Top Employers Institute. External recognition such as this is helpful as we look to recruit around 3,000 new people every year to support our ambitious growth plans.

Louise Smalley
Group HR Director
28 April 2014

Corporate governance



Anthony Habgood
Chairman

Introduction from Anthony Habgood, Chairman

At Whitbread we recognise that corporate governance touches all aspects of our business and affects all of our employees in many different ways. We are committed to maintaining high standards of governance to ensure that the Company is managed with integrity and transparency.

During the year key governance activities have included:

- an internal evaluation of the Board;
- a talent review and succession plan for key executive roles;
- a review of the way the Audit Committee reports to the Board on how it has carried out its responsibilities in relation to the Annual Report and Accounts; and
- developing the new form of remuneration report.

Statement of Compliance

The Board takes responsibility for leading on high standards of accountability and ethical behaviour. The 2012 UK Corporate Governance Code ('the Code'), which can be found at www.frc.org.uk, was applicable to the financial year covered by this Report and is the standard against which we measured ourselves. In order to ensure our compliance we undertook a thorough review of our corporate governance arrangements including our:

- overall compliance with the Code with respect to business and corporate practices;
- matters reserved to the Board; and
- terms of reference for each of the three Board committees.

The results of this review were presented at the January Board meeting and formally adopted by the Board.

We are pleased to report that the Board considered that it and the Company complied with all the provisions of the Code throughout the financial year.

Details of how Whitbread has applied the main and supporting principles of the Code with regard to remuneration can be found in the remuneration report on pages 58 to 76. Details of the members and activities of the Remuneration Committee can be found on page 67. Details of the members and activities of the Audit and Nomination committees can be found on pages 53 to 57.

Maintaining high standards of corporate governance is vital to supporting our financial performance and protecting your Company. Further details are provided in the following pages on how Whitbread complied this year in the following areas:

- leadership and the Board of Directors;
- Board effectiveness;
- shareholder relations;
- accountability and internal control; and
- Board committees.

The year ahead

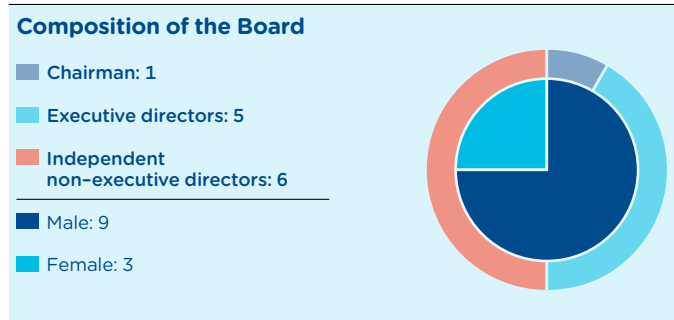
Corporate governance is an area that continues to change. We keep all developments under review and always aim for a level of governance that is appropriate and relevant to the Company.

Anthony Habgood
Chairman
28 April 2014

Leadership and the Board of Directors

The Board of Directors

There are 12 members of the Board including the Chairman, Chief Executive and Senior Independent Director. The composition of the Board is shown in the chart below.



Biographical details of each of the directors can be found on pages 46 and 47.

We believe that it is vital for the Board to contain a diverse range of skills, backgrounds and experiences to enable a broad evaluation of all matters considered and to contribute to a positive culture of mutual respect and constructive challenge. The mix of skills and experience represented on the Board is outlined below.

Board experience		Number of directors	
Retail sector	5	International	9
Travel and hospitality sector	4	Commercial property	1
Marketing	2	Technology	2
Legal	1	Human Resources	2
Financial	5		

Board responsibilities

The Board is responsible for the long-term success of the Company and ensures that there are effective controls in place which enable risk to be assessed and managed. All Board members have responsibility for strategy, performance, risk and people.

The Chairman and Chief Executive have clearly defined roles which are separate and distinct. The specific duties and division of responsibilities between the Chairman and Chief Executive have been agreed by the Board and are set out below.

Chairman

- Leadership of the Board and setting its agenda including approval of the Group's strategy, business plans, annual budget and key areas of business importance.
- Maintaining contact with major shareholders and ensuring that Board members understand their views concerning the Company.
- Ensuring a culture of openness and debate around the Board table.
- Leading the annual evaluation of the Board, the committees and individual directors.
- Ensuring, through the General Counsel, that the members of the Board receive accurate, timely and clear information.

Chief Executive

- Optimising the performance of the Company.
- Ensuring effective communication with shareholders and employees.
- The creation of shareholder value by delivering profitable growth and a good return on capital.
- Ensuring the Company has a strong team of high-calibre executives, and putting in place appropriate management succession and development plans.
- Leading the activities of the Whitbread Leadership Forum — a group of the Company's most senior executives.

Senior Independent Director

The Senior Independent Director provides a sounding board for the Chairman and supports him in the delivery of his objectives. The Senior Independent Director is available to shareholders if they have concerns which the normal channels have failed to resolve or which would be inappropriate to raise with the Chairman or the executive team. He also leads the evaluation of the Chairman on behalf of the other directors.

The Senior Independent Director can be contacted directly or through the Company Secretary.

Executive directors

The executive directors are responsible for the day-to-day running of the business and for implementing the operational and strategic plans of the Company.

Non-executive directors

The non-executive directors play a key role in constructively challenging and scrutinising the performance of the management of the Company and helping to develop proposals on strategy.

Board of Directors



Anthony Habgood
Chairman

Date of appointment to the Board: May 2005

Age: 67

Experience:

Between 1991 and 2009 Anthony served first as Chief Executive and then as Chairman of Bunzl plc. Prior to that he had served as Chief Executive of Tootal Group plc and as a director of the Boston Consulting Group Inc. In addition, Anthony has held the role of Chairman of Mölnlycke Healthcare (UK) Limited and non-executive directorships at Geest plc, Marks and Spencer Group plc, National Westminster Bank Plc, SVG Capital plc and Powergen plc.

Anthony will be stepping down from the Board later this year.

External appointments:

- Reed Elsevier plc and NV (Chairman)
- Preqin Holding Limited (Chairman)
- Norwich Research Park (Chairman)

Committee membership:

- Nomination Committee (Chairman)
- Remuneration Committee



Andy Harrison
Chief Executive

Date of appointment to the Board: September 2010

Age: 56

Experience:

Andy served as Chief Executive of easyJet plc from 2005 to 2010 and was Chief Executive of RAC plc (previously Lex Services plc) from 1996 to 2005. Prior to this, he held the roles of Managing Director of Courtaulds International Fabrics and Finance Director of Courtaulds Textiles plc. Andy has also held a non-executive directorship at Emap plc, where he was Chairman of the Audit Committee.



Patrick Dempsey OBE
Managing Director Whitbread Hotels & Restaurants

Date of appointment to the Board: January 2009

Age: 55

Experience:

Patrick joined Whitbread in 2004 as Managing Director of Marriott in the UK, and has worked in the hotel and restaurant business for 30 years. He was with Forte Hotels for 20 years, prior to joining Compass Group as Chief Executive of Restaurant Associates. In 2005, Patrick became Managing Director of Premier Inn and is now Managing Director of Whitbread Hotels & Restaurants.

External appointments:

- Talent & Skills (Business in the Community) (Leadership Team Member)
- British Hospitality Association (Director)
- Great Ormond Street Hospital Children's Charity (Corporate Partnerships Board Member)



Sir Ian Cheshire
Senior Independent Director

Date of appointment to the Board: February 2011

Age: 54

Experience:

Sir Ian is Group Chief Executive of Kingfisher Plc, having previously served as Chief Executive of B&Q UK from June 2005. Prior to joining Kingfisher in 1998 he worked for a number of retail businesses including Sears and Guinness.

External appointments:

- Kingfisher Plc (Group Chief Executive)
- British Retail Consortium (Chairman)
- Cambridge Institute for Sustainability Leadership (Chairman of Advisory Board)
- Department for Work and Pensions (Lead non-executive director)
- Business Disability Forum President's Group (President)

Committee membership:

- Remuneration Committee
- Nomination Committee



Richard Baker
Independent non-executive director

Date of appointment to the Board: September 2009

Age: 51

Experience:

Richard is Chairman of Virgin Active Group and DFS Furniture Holdings Plc as well as Chairman of the Global Advisory Council of Aimia. Richard previously served as Chief Executive of Alliance Boots Group plc and Chief Operating Officer at Asda Group plc.

External appointments:

- Virgin Active Group and Subsidiaries (Chairman)
- Global Advisory Council, Aimia (Chairman)
- DFS Furniture Holdings Plc (Non-executive Chairman)
- Advent International Plc (Operating Partner)

Committee membership:

- Audit Committee
- Remuneration Committee



Wendy Becker
Independent non-executive director

Date of appointment to the Board: January 2008

Age: 48

Experience:

Wendy is the Chief Executive of Jack Wills Limited. Previously, she was Group Chief Marketing Officer for Vodafone, Managing Director of TalkTalk and a partner at McKinsey & Company.

External appointments:

- Jack Wills Limited (Chief Executive)
- Cancer Research UK (Trustee)
- Princes Trust (Trustee)
- English National Ballet (Trustee)
- Advisory Board of Oxford's Said Business School

Committee membership:

- Audit Committee
- Nomination Committee
- Remuneration Committee



Christopher Rogers
Managing Director
Costa Coffee

Date of appointment to the Board:
 May 2005

Age: 54

Experience:

Christopher joined Whitbread nine years ago as Group Finance Director, a role he held until November 2012. He was appointed Managing Director of Costa Coffee in July 2012. Christopher previously worked at Woolworths Group plc where he was Finance Director and also held the position of Chairman of the Woolworths Group Entertainment business. He originally qualified as an accountant with Price Waterhouse before joining Kingfisher plc in 1988. Christopher held a number of roles in his time at Kingfisher, including Group Financial Controller, Finance Director and Commercial Director of Comet Group plc.

External appointments:

- Travis Perkins Plc (Non-executive director)



Nicholas Cadbury
Group Finance Director

Date of appointment to the Board:
 November 2012

Age: 48

Experience:

Nicholas joined Whitbread in November 2012 as Group Finance Director. He previously worked at Dixons Retail PLC, in a variety of management roles, including Chief Financial Officer from 2008–2011. Nicholas also held the position of Chief Financial Officer of Premier Farnell PLC, which he joined in 2011. Nicholas originally qualified as an accountant with Price Waterhouse.



Louise Smalley
Group HR Director

Date of appointment to the Board:
 November 2012

Age: 46

Experience:

Louise joined Whitbread in 1995 and has held the position as Group Human Resources Director since 2007. During her time at Whitbread, Louise has held a variety of HR roles across the Whitbread businesses, including HR Director of David Lloyd Leisure and Whitbread Hotels & Restaurants. She previously worked in the oil industry, with BP and Esso Petroleum.

External appointments:

- People 1st (Trustee)
- DS Smith Plc (Non-executive director) — with effect from 23 June 2014



Simon Melliss
Independent non-executive director

Date of appointment to the Board:
 April 2007

Age: 61

Experience:

Simon, a chartered accountant, was Chief Financial Officer of Hammerson plc from 1995 to 2011, having originally joined the company in 1991 as Group Financial Controller. Prior to that he served as the Group Financial Controller of Sketchley PLC and held senior finance positions with Reed International. Simon also previously held a non-executive directorship at Associated British Ports Holdings plc.

External appointments:

- Hermes Property Unit Trust (Chairman)
- University College London (Treasurer and member of the Council)

Committee membership:

- Audit Committee (Chairman)
- Nomination Committee



Susan Taylor Martin
Independent non-executive director

Date of appointment to the Board:
 January 2012

Age: 50

Experience:

Susan is President of the Legal business at Thomson Reuters. Other roles she has held at that company include: a President, Thomson Reuters Media, Media President of Global Investment Focus Accounts and a Managing Director of Legal in the UK and Ireland. Prior to this she was Global Head, Corporate Strategy for Reuters, which she joined in 1993.

External appointments:

- Thomson Reuters (President, Legal)
- Confederation of British Industry (Chair, London Council)
- The Powerlist Foundation (Trustee)

Committee membership:

- Audit Committee



Stephen Williams
Independent non-executive director

Date of appointment to the Board:
 April 2008

Age: 66

Experience:

Stephen retired as General Counsel and Chief Legal Officer of Unilever during 2010, having originally joined in that position in 1986. Prior to that, Stephen spent 11 years at Imperial Chemical Industries plc. From 1995 to 2004 he was a non-executive director of Bunzl plc and from 2004 to 2010 he was Senior Independent Director of Arriva plc. He joined the Board of Croda International Plc in 2010 as a non-executive director.

External appointments:

- Croda International Plc (Non-executive director)
- Eversheds LLP (Non-executive director)
- Spencer Stuart LLP (Senior Advisor)
- Moorfields Eye Hospital NHS Trust (Trustee)
- De La Warr Pavilion Trust (Chairman)
- Amicus Curie Limited (Director)

Committee membership:

- Remuneration Committee (Chairman)
- Nomination Committee

Corporate governance continued

Board activities during the year

In advance of each Board meeting, a set of Board papers, including monthly financial and trading reports, is circulated so that directors have sufficient time to review them and arrive at the meeting fully prepared.

The Board has a rolling agenda which sets matters to be considered throughout the year. This allows all directors to contribute to the setting of the agenda. Having a rolling agenda ensures that there is a structured approach to the consideration of recurring issues with such items being evenly spread across the calendar. The Board gives its attention to each area of the business in turn so that a strong understanding of the entire Company is maintained. The rolling agenda is regularly reviewed and updated and is circulated as part of the secretariat report before each meeting.

The agendas for individual Board meetings are agreed with the Chairman and the Chief Executive on a monthly basis so that current events and potential future issues can be discussed alongside the regular reports. Standard items for each meeting are a review of the minutes from the previous meeting, matters arising and progress on action points, reports from the Chief Executive, the Finance Director and the Managing Directors of Whitbread Hotels & Restaurants and Costa and the secretariat report.

The Chairman meets with the non-executive directors without the executives present after Board meetings.

There is a schedule of matters reserved exclusively to the Board; all other decisions are delegated to management. These matters reserved exclusively to the Board include approval of Group financial statements and the preliminary announcement of half and full-year results; changes relating to the Group's capital structure; the annual budget and the Group's business plan; approving capital projects, acquisitions and disposals valued at over £12 million; interim dividends and recommendation of final dividends; establishment of Board committees, terms of reference and membership of Board committees; and maintaining sound risk management and internal control systems.

The schedule of matters reserved was reviewed at the January 2014 Board meeting and is available on our website.

At the meetings during the year, the Board discharged its responsibilities and considered a range of matters, details of which can be found below:

Board agenda 2013/14

Standing agenda items

- Chief Executive's report
- Finance Director's report
- Health and Safety report (quarterly)
- Internal Controls (quarterly)
- Secretariat report

Q1

- Approval of Annual Report and Accounts
- Recommendation of final dividend
- Approval of year-end announcement
- Costa EMEI update
- Costa Enterprises update
- Premier Inn digital update
- Business Plan focus areas
- Whitbread Hotels & Restaurants update

Q2

- Premier Inn International update
- Pensions update
- Costa Asia update
- Talent review

Q3

- Good Together activity
- Interim results
- Recommendation of interim dividend
- Premier Inn International projects
- International talent review
- Costa Retail update
- Premier Inn digital update
- 'hub by Premier Inn'
- Strategy review

Q4

- Whitbread Hotels & Restaurants update
- 2014/15 budget
- Corporate governance review
- Costa Good Together
- Premier Inn digital update
- Costa global brand positioning



Costa is growing rapidly in China.

Board meetings and attendance

The Board generally holds meetings at monthly intervals during the year and on an ad hoc basis as and when required. Ten meetings were held during the year and attendance at meetings by directors is set out below:

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Anthony Habgood	10/10	—	2/2	4/4
Andy Harrison	10/10	—	—	—
Nicholas Cadbury	10/10	—	—	—
Patrick Dempsey	10/10	—	—	—
Christopher Rogers	10/10	—	—	—
Louise Smalley	10/10	—	—	—
Richard Baker	10/10	3/4	—	4/4
Wendy Becker	10/10	4/4	1/1	3/4
Sir Ian Cheshire	10/10	—	4/4	4/4
Susan Hooper	7/8	—	—	—
Simon Melliss	10/10	4/4	4/4	—
Susan Taylor Martin	10/10	4/4	—	—
Stephen Williams	10/10	—	4/4	4/4

Members of the executive team attended committee meetings as appropriate. Anthony Habgood is not a member of the Audit Committee but attended all four meetings during the year.

Two of the Nomination Committee meetings dealt with the appointment of the successor to the Chairman, therefore Anthony Habgood did not attend these meetings.

Wendy Becker was appointed as a member of the Nomination Committee in February 2014 and was therefore only eligible to attend one of the four scheduled meetings.

Susan Hooper resigned from the Board with effect from 1 January 2014 and was therefore only eligible to attend 8 of the 10 scheduled meetings.

Insurance cover

The Company has appropriate directors' and officers' liability insurance in place. In addition to this, the Company provides an indemnity for directors against the costs of defending certain legal proceedings. These are reviewed periodically.

Effectiveness

The effectiveness of the Board, committees and individual directors is reviewed annually in accordance with the Code.

Composition of the Board

It is believed that the Board and its committees have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their responsibilities effectively. The Board has a majority of independent non-executive directors. After assessing independence against the Code, the Board considers all non-executive directors to be independent in judgement and character. On appointment, the Board also considered the Chairman to be independent in character and judgement.

No new directors were appointed during the financial year. Details of the appointment procedure can be found in the report of the Nomination Committee on pages 56 and 57.

External directorships

Non-executive directors may serve on other boards provided they continue to demonstrate the required commitment to discharge their duties effectively. The Nomination Committee has reviewed the extent of other interests of the non-executive directors and the Board is satisfied that the Chairman and each of the non-executive directors commit sufficient time to their duties and fulfil their obligations to the Company.

No executive director has taken on more than one non-executive directorship in a FTSE 100 company. During the year Christopher Rogers became a non-executive director of Travis Perkins PLC. No other executive directors hold any non-executive directorships in any FTSE 100 companies.

Training and development

On appointment, all directors receive a full and formal induction that is tailored to their specific needs. Meetings are arranged with the Chairman, Chief Executive and all executive and non-executive directors. Meetings are also arranged with members of the senior management team, the Group's advisers and, if appropriate, major investors. A detailed review of all our businesses is provided and several site visits to our brands are arranged to provide insight into the Company and to develop an understanding of each business.

In order to become more familiar with the international businesses, the November Board meeting was held in Bangalore, forming part of the Board visit to India and the United Arab Emirates.

During this visit the Board met the local teams in both India and the United Arab Emirates and received presentations from local experts on the economy and hospitality industry. Site visits to Whitbread hotels and coffee shops were undertaken, as well as visits to competitor sites.



Training and development continues beyond the induction process and is an ongoing process for all Board members. The Chairman reviews and agrees the training and development needs with each director on an annual basis.

Directors are made aware of formal training events to ensure that their skills and knowledge are continually updated. Training events were attended by Board members during the year on a range of issues including:

- Board effectiveness;
- Audit Committee key issues;
- regulatory and legal updates;
- cyber security; and
- remuneration updates.

Investor relations and market updates were also considered by the Board and regular updates from each of the brands are presented to the Board to ensure that familiarity with the Company is maintained. The Company's auditor also prepared a paper for the Board on the key developments in accounting and governance practice.

All directors have access to independent professional advice at the Company's expense. Directors serving on the Board committees confirmed that they are satisfied that they received sufficient resources to enable them to undertake their duties effectively. Each director has access to the Company Secretary for advice on governance.

The Company Secretary prepares a monthly report that includes updates on corporate legislation and best practice on matters including corporate governance. This Report is presented and discussed at each Board meeting.

Evaluation

An evaluation of the Board, its committees, individual directors and the Chairman is carried out each year.

Board and committees

An external evaluation was conducted in 2012 and in accordance with the Code, we intend to have an externally facilitated evaluation of the Board at least every three years. This year's Board evaluation was conducted internally and had two aspects:

- each director completed a formal questionnaire on the performance of the Board and each of the Board committees, considering the balance of skills, independence and knowledge of the Company on the Board, how the Board works together as a unit, and other factors relevant to its effectiveness; and
- the Chairman met or spoke to all directors on a one-to-one basis.

The conclusions of the review were discussed at the February Board meeting and actions in response to the results have been developed. One particular area for discussion was the need to develop further international management capability and more reports will be made to the Board on this subject.

In response to last year's evaluation, the following action has been taken:

- greater emphasis on the reporting of the WINcard at Board meetings;
- familiarisation with the Premier Inn International markets; and
- improvements in the presentation of Board papers.

Individual directors

The Chairman has one-to-one meetings with all directors to discuss their performance and to identify whether they continue to contribute effectively to the Board and demonstrate commitment to the role.

Chairman

The Senior Independent Director would normally meet with the non-executive directors without the Chairman present to discuss the performance of the Chairman. The Senior Independent Director would also speak with the executive directors to gain their views before discussing the results with the Chairman. It was decided that this process was not necessary this year in light of the Chairman stepping down later in the year and the positive feedback arising from the internal review questionnaire.

Conflicts of interests

Directors are required to disclose any conflicts of interest immediately as and when they arise throughout the year. In addition, a formal process is undertaken each year in February when each director confirms to the Board details of their external interests including any other directorships which they hold.

These are assessed by the Board to determine whether the director's ability to act in the best interests of the Company could be compromised. If there are no such potential or actual conflicts, the external interests are authorised by the Board. All authorisations are for a period of 12 months. No director is counted as part of a quorum in respect of the authorisation of his or her own conflict situation.

It is recognised that all organisations are potential customers of Whitbread and, in view of this, the Board has authorised all directors' current external directorships.



Shareholder relations

In accordance with the Code, the Board recognises that it has responsibility for ensuring that a satisfactory dialogue with shareholders takes place and any major shareholders' issues and concerns are communicated to the Board.

The Company communicates with both the institutional and private shareholders through the following means:

Interaction with all shareholders

- the Company's website (www.whitbread.co.uk), where information and news is regularly updated;
- the Annual Report, which sets out details of the Company's strategy, business models and performance over the past financial year and plans for future growth;
- the Annual General Meeting, where all shareholders have the opportunity to vote on the resolutions proposed and to put questions to the executive team; and
- presentations of full-year and interim results to analysts and shareholders, which are also available on the Company's website.

Interaction with institutional shareholders

- the Chief Executive, Group Finance Director and Director of Investor Relations held meetings with institutional investors following the full-year and interim results;
- the Chairman meets with institutional shareholders on request;
- the Board received updates on the views of major shareholders from the Company's brokers; and
- investor days took place for both Costa and Hotels & Restaurants.

Interaction with private shareholders

- live webcast presentations of the full-year and interim results as well as the Costa and Hotels & Restaurants investor days; and
- electronic communications with shareholders including use of the online share portal.

The Annual General Meeting

The Annual General Meeting (AGM) provides all shareholders with the opportunity to communicate directly with the Board and encourages their participation at the meeting.

In accordance with the Code, the Notice of AGM and related papers are sent to the shareholders at least 20 working days before the meeting. The Company proposes a separate resolution on each substantially separate issue including a specific resolution to approve the Report and Accounts. For each resolution, proxy appointment forms provide shareholders with the option to vote in advance of the AGM if they are unable to attend in person. All valid proxy votes received for the AGM are properly recorded and counted by Whitbread's registrars.

As in previous years, all voting by shareholders will be by poll using electronic handsets. The voting results, including proxy votes received, will be displayed on a screen at the end of the meeting. In addition, the audited poll results will be disclosed on the Company's website following the meeting, and announced through the regulatory news service.

Share capital

The information that is required by DTR 7.2.6 relating to the share capital of the Company can be found within the directors' report on pages 78 and 79.

Accountability and internal control

Internal control and risk management

The Board is responsible for the Group's systems of internal control and risk management, and for reviewing their effectiveness. These systems are designed to manage rather than eliminate risk of failure to achieve business objectives. They can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Board has established an ongoing process for identifying, evaluating and managing the Group's significant risks. This process was in place throughout the 2013/14 financial year and up to the date of this Report. The process is regularly reviewed by the Board and accords with the internal control guidance for directors in the Code. A report of the key risks can be found on pages 32 and 33.

Risk analysis

- The Board identifies the principal risks of the Company on a regular basis and throughout the year it reviews the actions in place to mitigate the risks together with assurance and monitoring activity. The analysis covers health and safety, financial, market, operational and reputational risks which the Company may face as well as specific areas identified in the business plan and budget process.
- Each of the businesses also carries out its own risk analysis together with PwC as operational auditor and this is reviewed regularly by the management boards.
- All major capital and revenue projects, together with significant change programmes, include the consideration of the risks involved and an appropriate action plan.



Controls

- The Company reviews and confirms its compliance with the Corporate Governance Code on an annual basis.
- The matters reserved to the Board require that major projects and programmes must have specific Board approval.
- Limits of delegation and authority are prescribed to ensure that the appropriate approvals are obtained if Board authority is not required to ensure appropriate segregation of tasks.
- Group financial policies, controls and procedures are in place and regularly reviewed and updated.
- The Whitbread Code of Conduct, setting out required levels of ethics and behaviour, is communicated to employees.
- The Code of Conduct makes reference to specific policies and procedures which have to be followed.
- Management is responsible for ensuring the appropriate maintenance of financial records and processes that ensure that financial information is relevant, reliable, in accordance with applicable laws and regulations and is distributed both internally and externally in a timely manner.
- A review of the financial statements is completed by management to ensure that the financial position and results of the Group are appropriately reflected.
- All financial information published by the Group is subject to the approval of the Audit Committee and the Board.
- An annual review of internal controls is undertaken by the Board with the assistance of the Audit Committee.

Assurance

- The Board, with the assistance of the Audit Committee, approves an audit programme which ensures that the significant areas of risk identified are independently reviewed within at least a three year period.
- The programme and the results of the audits are regularly assessed during the year.
- The Audit Committee reviews the major findings from both operational and external audits.
- PwC, as operational auditor, has been appointed to carry out the independent audits. Its reports are reviewed by the Audit Committee and on a monthly basis by the management team to ensure that the actions required to address issues identified are implemented.
- PwC reports annually to the Audit Committee on the effectiveness of operational and financial controls across the Group.

- EY review and report on the significant issues identified in their audit report.
- An internal control evaluation process is overseen by the management team which assesses the level of compliance with the controls, policies and processes and the results are reviewed and tested on a sample basis by PwC.
- Post completion reviews of major projects and investments are carried out and reported on to the Board.

Statement of the directors in respect of the Annual Report and Accounts

As required by the Code, the directors confirm their responsibility for preparing the Annual Report and Accounts and consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. Further detail on how this conclusion was reached can be found in the report of the Audit Committee on pages 53 to 55.

Statements by the auditors in respect of their reporting responsibilities

Statements by the auditor about its reporting responsibilities can be found in the auditor's report on pages 85 and 137.

Going concern

The directors' going concern statement can be found in the directors' report on page 80.

Business model, value and strategy

Information on the Group's business model and the strategy for delivering the objectives of the Company can be found on pages 6 to 8.

Board committees

The Board is supported by three committees; the Audit Committee, the Nomination Committee and the Remuneration Committee. Their terms of reference are reviewed annually and updated in line with best practice. They have been reviewed in 2014 and approved by each of the Committees. They are available in full on the Company's website.

A detailed report from the Chairman of the Remuneration Committee is set out on pages 58 to 76. Reports for the Audit and Nomination Committees can be found on pages 53 to 57.

Audit Committee report



Simon Melliss
Chairman, Audit Committee

Members of the Audit Committee

- Simon Melliss (Chairman)
- Richard Baker
- Wendy Becker
- Susan Taylor Martin
- Simon Barratt (Secretary)

Role of the Audit Committee

The principal role of the Audit Committee is to monitor and review the integrity of the Company's financial results, to review the Company's internal controls and risk management systems, to monitor and review the effectiveness of the Company's internal audit function and to make recommendations to the Board in relation to the external auditor.

Key responsibilities

The key responsibilities of the Committee are to:

- review the half-year and full-year results and financial statements;
- report to the Board on the appropriateness of our accounting policies and practices including critical accounting policies and practices;
- oversee the relationship with the external auditor;
- review the external audit plans and report;
- review and evaluate the effectiveness of the internal controls and risk management system;
- review the operational audit process;
- review the Group's contingent liabilities; and
- review the speaking out facility and consider any matters raised.

The full terms of reference are available on the Company's website.

Committee meetings

The Committee meets at least three times a year and will hold additional meetings as and when required. Meetings are attended by the members of the Committee and, by invitation, the Chairman of the Board, the Chief Executive, the Group Finance Director, the Group Financial Controller and other relevant people from the business when appropriate. The external and operational auditors are also invited to meetings.

Main activities during the year

During the year, the Committee focused on the following matters:

Financial reporting

- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements have been applied or where there has been discussion with the external auditor;
- whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- the regulatory announcement of the results;
- a going concern assessment; and
- any correspondence from regulators in relation to our financial reporting.

To aid its review, the Committee considers reports from the Group Financial Controller, the Tax Director and from PwC as operational auditor and also reports from the external auditor on the outcomes of their half-year review and annual audit. The Committee looks for constructive challenge from EY as external auditor.



The key areas of judgement considered by the Committee in relation to the 2013/14 accounts were:

Taxation

The method of calculating the Group's tax expense and liability and the provisioning for potential tax liabilities were considered. The Committee considered and challenged the nature of the exceptional tax items recorded in the year and the assumptions made by management used to determine the amounts recorded. The Committee reviewed the judgements exercised on tax provisioning as part of its annual review of key provisions.

Pension scheme

The assumptions used to calculate the pension scheme assets and liabilities under IAS 19. The Committee considered the consistency of the basis of calculation of the assumptions with those used in 2012/13 and agreed with the judgements reached by management.

Liability provisioning

The level of provisioning for contingent and other liabilities is an issue where management views and legal advice are important. These are addressed through the Committee discussing with management and challenging the key judgements made.

Asset impairment

The judgements in relation to asset impairment largely relate to the assumptions underlying the calculation of the value in use of the business being tested, primarily the achievability of the long-term business plan and macroeconomic assumptions underlying the valuation process. The Committee addresses these matters through receiving reports from management outlining the basis for the assumptions used. In addition, the EY reporting to the Committee is considered.

During the year, the Board delegated authority to the Audit Committee to advise the Board on whether the Annual Report and Accounts, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

In order to confirm this position to the Board in addition to the processes described above, there has been a thorough verification and approval process for the Annual Report and Accounts, as outlined below:

- the Annual Report is drafted by the appropriate senior management with overall coordination by the Secretariat team to ensure consistency;
- comprehensive reviews of the drafts of the Report and Accounts are undertaken by management, the Main Board Committee and me, as the Audit Committee Chairman;
- the final draft is reviewed by the Audit Committee prior to consideration by the Board; and
- formal approval of the Annual Report and Accounts is given by a Committee of the Board.

Internal control and risk management

The Audit Committee holds an annual evaluation of internal controls in March. The Committee reviews the Group risk matrix and assesses the effectiveness of the internal processes that have been implemented to enable those risks to be mitigated and monitored. This review is completed in conjunction with an Internal Controls Effectiveness Review from PwC as operational auditor. Each risk is assessed and the level of assurance required is determined.

The Audit Committee then approves a plan from PwC to carry out reviews of the chosen risk areas during the following year.

At the meeting this year the Committee considered a revised version of the Group risk analysis (see risk management section on pages 30 to 33). This was discussed in detail and management were asked to provide further information on the mitigation plans for some of the key risks identified.

Information systems and data security

During the year the Audit Committee reviewed the cyber security framework and monitoring processes and made recommendations on how they could be enhanced. A further review will be held during the year.

Operational audit

The Audit Committee monitors and reviews the scope, extent and effectiveness of the Company's internal audit function. Reports from PwC as operational auditor are reviewed and contain updates on audit activities, the results of unsatisfactory audits and any relevant action plans to address these areas. Private discussions are held with the operational auditors as and when necessary and I also meet with PwC regularly outside of the formal Committee process.

External audit

The Committee oversees the relationship with the external auditor. There is a review of the performance of the external auditor and its independence and effectiveness.

The effectiveness of the external audit process is dependent on appropriate audit risk identification at the start of the audit cycle. We receive from EY a detailed audit plan, identifying their assessment of these key risks. For the 2013/14 financial year, the primary risks identified were in relation to the defined benefit pension scheme, taxation and revenue recognition. These risks were reviewed and the work done by the auditors was challenged to test management's assumptions and estimates around these areas, as well as other areas reported upon, which included impairment and property provisions. The effectiveness of the audit process was assessed in addressing these matters through the reporting we received from EY at both the half-year and year-end. In addition feedback was sought from management on the effectiveness of the audit process.

We hold private meetings with the external auditor at the half-year and full-year Committee meetings to provide additional opportunities for open dialogue and feedback from the Committee and the auditor without management being present.

In accordance with the Code it is intended that the external audit contract is put out to tender at least every ten years. A competitive tender of the external audit was carried out in 2010/11 and it was recommended that EY be reappointed. In accordance with new EU regulations it is intended that the audit will be put out to tender again within the next six years. EY has been the external auditor for over 50 years.

To safeguard the objectivity and independence of the external auditor, the Committee's Terms of Reference set out the non-audit services that are permitted in certain circumstances and those not permitted at all. This prevents the auditor being able to provide certain services such as internal audits.

For certain specified audit and audit-related services, the Group can employ the external auditor without reference to the Audit Committee, subject to a specified fee limit. For the services permitted in certain circumstances, agreement must be sought from me, as Chairman of the Committee where fees are less than the limit specified, or with full Audit Committee approval where fees are anticipated to be greater. A tender process would be held where appropriate.

Committee evaluation

The Committee's activities formed part of the internal review of the Board effectiveness undertaken during the year. Details of this process can be found on pages 49 and 50.

Simon Melliss
Chairman, Audit Committee
28 April 2014

Nomination Committee report



Anthony Habgood
Chairman, Nomination Committee

Members of the Nomination Committee

- Anthony Habgood (Chairman)
- Wendy Becker
- Sir Ian Cheshire
- Simon Melliss
- Stephen Williams
- Simon Barratt (Secretary)

Role of the Nomination Committee

The role of the Nomination Committee is to review the composition of the Board and to identify and nominate directors who could enhance the Board's performance. The Committee is also responsible for evaluating the directors on an annual basis.

The Committee meets at least twice a year. The main activities during 2013/14 included:

- the annual planning and review meeting;
- a review of the Board size, structure and composition;
- a review of the talent and succession planning for the Board;
- changing the Senior Independent Director and Chairman of the Remuneration Committee; and
- the re-election of directors at the AGM.

The Committee is responsible for ensuring that Board and committee membership is progressively refreshed and that there is no undue reliance on any one individual. This is reviewed at the annual meeting in March.

The full terms of reference are available on the Company's website.

Board appointments and diversity

Appointments to the Board are based on merit against objective criteria having due regard for diversity, including gender.

Diversity and equality have always been core values at Whitbread. The Board believes that diversity is highly important, not only for Board effectiveness but for the effectiveness of the Company as a whole. Whitbread appoints members of the Board on the basis of qualification and merit and does not discriminate on any grounds. We are committed to an active policy of equal opportunities and embrace diversity at all levels.

Our approach to the appointment of new directors

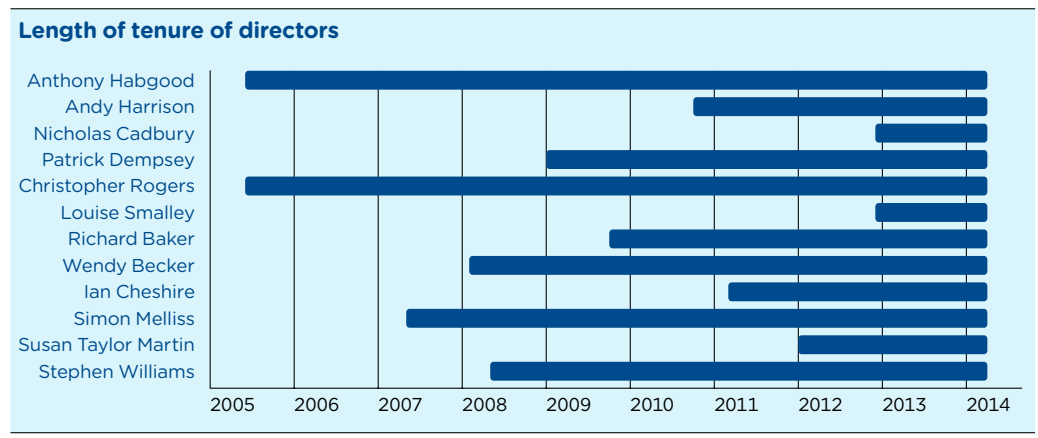
The Nomination Committee annually evaluates the balance of skills, experience, independence and knowledge on the Board and, if necessary, prepares a description of the role and capabilities required for a particular appointment.

If necessary, an external search consultant would be engaged and a number of candidates identified. Selected candidates would meet with the Nomination Committee and further interviews would take place before an appointment was made.

Our approach to the annual re-election of directors

As required by the Code, all directors will be subject to re-election at the next AGM. The Nomination Committee held a planning and review meeting in March when the contribution and commitment of each member of the Board was reviewed. Following this discussion, it was recommended that all directors be proposed for reappointment at this year's AGM. Details setting out why each director is deemed to be suitable for reappointment will be included with the AGM papers circulated to all shareholders.

Wendy Becker's second three-year term came to an end in January 2014 and Stephen Williams' second three-year term came to an end in April 2014. The Nomination Committee was satisfied that their reappointment would be beneficial to the Company and recommended that both Wendy and Stephen be reappointed for a further three-year period. The only other non-executive director of the Board that has been a director for a term longer than six years is Simon Melliss. He was reappointed for a further three-year term on 1 April 2013.



Board and committee changes

As announced in December 2013, Susan Hooper decided to step down as a non-executive director of the Company in January 2014 so that she could focus all her attention on her new role at British Gas. There are no current plans to replace Susan on the Board. It was also decided that Sir Ian Cheshire would become the Senior Independent Director and Stephen Williams would, in turn, become the Chairman of the Remuneration Committee. In February 2014, Wendy Becker was appointed as a member of the Nomination Committee.

As announced in January 2014, I will be stepping down from the Board later this year. The process to find my successor will be led by Sir Ian Cheshire, the Senior Independent Director and he will chair the Nomination Committee when it is dealing with the appointment of my successor. A number of meetings have already been held to appoint advisers and agree a shortlist of candidates.

Anthony Habgood
Chairman, Nomination Committee
28 April 2014

Remuneration report

Statement from Stephen Williams



Stephen Williams
Chairman, Remuneration Committee

Introduction

This year's remuneration report is the first Whitbread has produced under the new disclosure regulations. You will see that, after this introductory statement, there is a policy report followed by our annual report on remuneration.

The policy report sets out details of our remuneration structure, which shareholders will be asked to approve at the 2014 AGM. The annual report on remuneration explains what directors were paid in 2013/14, including the awards under the incentive schemes, and also gives some detail on how our policy will be implemented in 2014/15.

Two years ago, we explained that we had taken the opportunity to redefine Whitbread's remuneration principles and these have not changed. The intention of the principles, which have been used to guide the content of the new policy report, is to ensure that remuneration arrangements are aligned to and support the delivery of the Group's business strategy and shareholder value creation.

Whitbread's aim is to be competitive in each employee category so as to attract and retain as high a calibre of person as appropriate to the specific role. This central aim remains the same whether we are talking about senior executives or the thousands of team members in our hotels, restaurants and coffee shops. It is important that we employ the best people available in these vital customer-facing roles and we must therefore remain an attractive employer. We achieve this by investing significant resources in the development of team members, giving them real opportunities to progress through the organisation and providing incentive schemes such as 'My Rewards' and 'Feel Good' to reward high performance. Further details can be found on pages 12 to 13 and 22 to 23.

Remuneration linked to strategy

Whitbread's strategy, which is to invest in growing its leading brands, Premier Inn and Costa, has stretching targets which, if delivered successfully, will create significant value for our shareholders. The Committee believes that the executive team should be rewarded for the achievement of the strategy and therefore incentives should be clearly aligned to, and dependent upon, delivering earnings growth and returns above our cost of capital.

The Customer Heartbeat schematic, which is described by Andy Harrison on page 6 shows how we intend to deliver our strategic aims by providing a great place to work for our people, so that they care for our customers and provide them with an experience that will make them come back time and time again. We intend to deliver these aims whilst being a force for good in the communities in which we operate. The diagram on page 59 shows how elements of the remuneration package are linked to this model.

Along with profit and returns targets, the WINcard remains a key element of our remuneration structure. It is designed to ensure that all executives are incentivised on both non-financial and financial measures. WINcard measures are 'SMART' (i.e. specific, measurable, achievable, relevant and timely). In addition to the WINcard measures, where appropriate, the Remuneration Committee may introduce further measures specific to an individual's role.

New Long Term Incentive Plan ('LTIP')

The 2004 LTIP has now reached the end of its ten-year life and we are therefore asking for shareholders to approve a new LTIP at the 2014 AGM. The Committee believes that the expiring plan, as amended in 2012 following a shareholder consultation, was effective in incentivising the delivery of the Company's strategy and, as such, the proposed new plan is substantially the same as the expiring plan. Amendments include the introduction of new clawback and malus provisions and a new holding period post vesting.

The 125% of salary limit in the expiring LTIP rules was set in 2004 and all executive directors, including the Chief Executive, currently receive awards at this level. As I explained above, our strategy is to be competitive in each employee category in order to attract and retain high calibre individuals. To bring the Chief Executive's package closer to competitive market practice, in terms of the absolute level of LTIP award and its relative level in comparison to the other executive directors, the Committee is proposing an increase in the level of award for the Chief Executive to 175% of salary with effect from 2015. There is no current intention to change the level of awards to the other executive directors.

LTIP awards made in 2014 under the current LTIP will be subject to a new one-year holding period post vesting, with awards made under the new LTIP from 2015 being subject to a two-year holding period post vesting. You will see in the policy table on page 61 that the maximum potential level of award under the new LTIP has been set at 200% of salary, although we have no current plans to make awards up to that maximum level. Any increase above this maximum would be put to shareholders for approval in a future policy report.

The statement below, the remuneration policy report and the annual report on remuneration form the directors' remuneration report, which was approved by the Board and signed on its behalf by Stephen Williams on 28 April 2014.

Whitbread is a fast-growing, capital-intensive business. The Group's growth is based on a five-year business plan and the delivery of our growth milestones along with strong returns is vital for the future success of the Company. It is for this reason that the LTIP performance conditions, a combination of ROCE and EPS, have been selected. For the second year running the Committee, having reviewed the latest performance and the changing mix of assets in the Group, has strengthened the ROCE targets. Further details can be found on page 76.

Shareholding requirement

A feature of Whitbread's remuneration structure for some years now has been that a significant proportion of the incentives available to executives are paid in shares, a material element of which is deferred. This remains core to our remuneration structure. The Remuneration Committee believes that executives should build a significant shareholding in the Company in order to provide greater alignment between executives and shareholders. During the year we have further strengthened our position on this by replacing the previous guidelines with a new shareholding requirement and increasing the value of shares executives are required to hold.

Reward for the successful delivery of strategy

It has been another very good year for Whitbread, with underlying PBIT up by 14.2% to £430.7 million, underlying basic EPS up by 20.1% to 179.02p and Group return on capital up from 13.9% to 15.3%. Meanwhile, the Company remains on track to meet its growth milestones. In the light of this performance, it is entirely right that executives are rewarded for the successful delivery of the Group's strategy during the year and, as you will see from this report, the incentive schemes have paid out towards the top end of the range.

Stephen Williams
Chairman, Remuneration Committee
28 April 2014



	Scheme	Measure
Winning Teams	<ul style="list-style-type: none"> Annual Incentive Scheme 	<ul style="list-style-type: none"> Team engagement Health and safety (hurdle)
Customer Heartbeat	<ul style="list-style-type: none"> Annual Incentive Scheme 	<ul style="list-style-type: none"> Costa brand standards Hotels & Restaurants family measures Brand performance Health and safety (hurdle)
Profitable Growth	<ul style="list-style-type: none"> LTIP Annual Incentive Scheme 	<ul style="list-style-type: none"> Underlying basic EPS Return on capital Underlying profit Market performance/brand growth Like for like sales
Good Together	<ul style="list-style-type: none"> Annual Incentive Scheme 	<ul style="list-style-type: none"> Carbon consumption Waste diverted from landfill

Remuneration policy report

Introduction

This report outlines the Company's remuneration policy, which shareholders will be asked to approve at the 2014 AGM. Subject to shareholder approval the policy will be effective from the date of the 2014 AGM and is intended to apply for three years.

For executives, our approach is designed to:

- align with the business strategy and the achievement of planned business goals;
- support the creation of sustainable long-term shareholder value;
- provide an appropriate balance between remuneration elements that attract, retain and motivate the highest calibre of executive talent; and
- encourage a high-performance culture by ensuring performance-related remuneration constitutes a substantial proportion of the remuneration package and by linking maximum payout opportunity to outstanding results.

The policy table below provides more detail on each key element of remuneration, including the maximum potential value of each element, a brief summary of how it works and details of any performance metrics.

Future policy table

Element	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Base salary	<ul style="list-style-type: none"> • Base salaries are set so as to be sufficient to attract and retain the calibre of executive talent needed to support the long-term interests of the business. 	<p>Salaries are reviewed annually taking account of:</p> <ul style="list-style-type: none"> • the salary review across the Group; • trading circumstances; • personal performance against agreed objectives; and • market data for an appropriate comparator group of companies. 	<ul style="list-style-type: none"> • Annual salary increases will not normally exceed average increases for employees in other appropriate parts of the Group. • On occasion, increases may be larger where the Committee considers this to be necessary. Circumstances where this may apply include growth into a role, to reflect a change in scope of role and responsibilities, where market conditions indicate a level of under competitiveness and the Committee judges that there is a risk in relation to attracting or retaining executives. • Where the Committee exercises its discretion to award increases above the average for other employees, the resulting salary will not exceed the competitive market range. 	None
Benefits	<ul style="list-style-type: none"> • Benefits are intended to be competitive in the market so as to assist the recruitment and retention of executives. 	<ul style="list-style-type: none"> • Executive directors are entitled to benefits relating to car/participation in the Sharesave scheme/healthcare/personal insurances. Assignee allowances or local market terms may be necessary for directors based overseas. 	<ul style="list-style-type: none"> • In 2013/14 the benefits received by the executive directors amounted to between 3.5% and 6.5% of salary. We do not anticipate that the maximum payable would exceed 10% of salary. However, the Committee may provide benefits above this level in certain situations where it deems it necessary. This may include, for example, the appointment of a director based overseas or a significant increase in the cost of the benefits. 	None

Element	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Annual Incentive Scheme	<ul style="list-style-type: none"> To provide a direct link between annual performance and reward. To incentivise the achievement of outstanding results across appropriate key stakeholder measures. To align with the long-term interests of shareholders and help participants build a significant stake in the business over time, by awarding a material part of the annual incentive in deferred equity. 	<ul style="list-style-type: none"> Targets for both financial and non-financial measures set at the beginning of the incentive year. Cash awards paid following the end of the financial year. Deferred shares awarded and, under normal circumstances, released three years after the date of award. Malus provisions apply to unvested deferred shares in the event of a material misstatement of results. 	<ul style="list-style-type: none"> 167% of base salary (73% of salary paid in cash and 94% of salary paid in deferred shares). 	<ul style="list-style-type: none"> A maximum of 137% of base salary is payable based on underlying profit performance, calculated on a straight-line basis between 95% of target (threshold) to 100% of target and from 100% to 110% of target (maximum). A maximum of 30% of base salary is payable based on performance against WINcard and/or other appropriate stakeholder measures.
Long Term Incentive Plan	<ul style="list-style-type: none"> To align the interests of senior executives closely with sustainable long-term shareholder value creation. To focus rewards on both the sustained delivery of absolute long-term earnings growth and the efficient use of capital over the long term. To retain executives over the performance period of the awards and beyond. 	<ul style="list-style-type: none"> Awards made annually. Awards vest after three years subject to performance conditions. Two-year holding period post vesting. Subject to clawback and malus provisions. 	<ul style="list-style-type: none"> Annual awards to a maximum of 200% of base salary. 	<ul style="list-style-type: none"> 75% of award based on EPS growth. No element of the award will vest unless a minimum level of ROCE, as determined by the Remuneration Committee on an annual basis, is achieved in the final year of the performance period. ROCE also acts as a multiplier on a straight-line sliding scale to increase the EPS element by up to a further third.
Pension	<ul style="list-style-type: none"> Pension benefits are provided in order to offer a market competitive remuneration package that is sufficient to attract and retain executive talent. 	<ul style="list-style-type: none"> Executive directors are entitled to participate in the Company's pension scheme (or other pension arrangements relevant to their location if based overseas). Defined contribution scheme. Can elect for cash in lieu of pension contributions. If cash is taken, the amount is reduced by the value of the employer's national insurance liability. 	<ul style="list-style-type: none"> 27.5% of base salary. 	None

Illustration of application of remuneration policy

The graphs shown on page 62 show how the remuneration policy will be applied in 2014/15, with details of expected remuneration levels for each director for below threshold performance, for on-target performance and for maximum performance.

Performance measures

With the exception of base salary, benefits, pension and participation in the Sharesave scheme, all other elements of the remuneration packages of the executive directors are linked to performance.

Annual Incentive Scheme

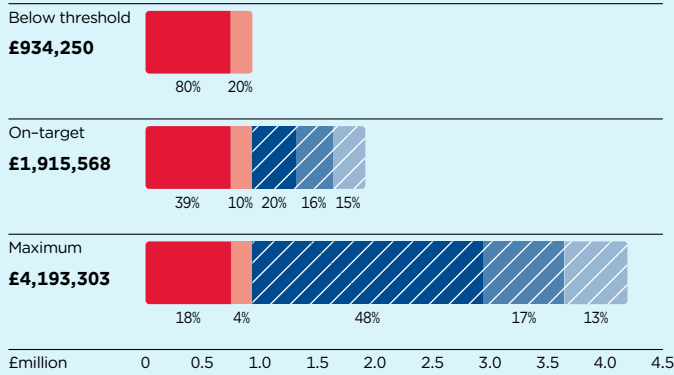
The Annual Incentive Scheme has been designed to incentivise outstanding performance across a number of key stakeholder measures and it rewards approximately 90 executives with both a cash payment and an award of deferred shares. The scheme operates over a four-year period as follows:

- performance in the first year is measured against both financial and non-financial measures to determine the level of awards;
- measures are set by the Remuneration Committee so that 'on-target' performance is challenging;
- at the end of the first year, cash payments are made and any deferred shares are awarded as appropriate;
- there is a further three-year holding period for the deferred shares before they vest to the executive; and
- malus provisions apply to the deferred share awards in the event of a material misstatement of results.

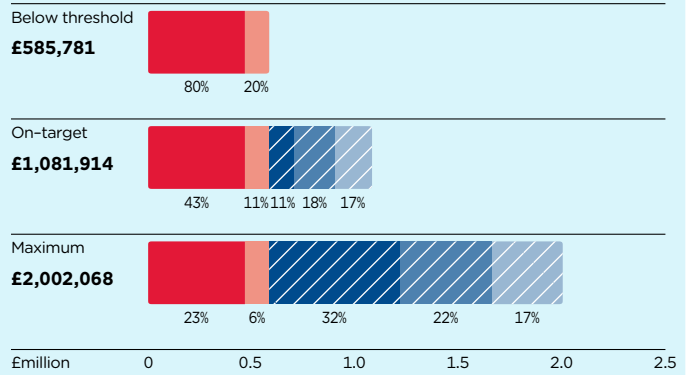
Remuneration policy report continued

Executive directors – potential value of 2014/15 package

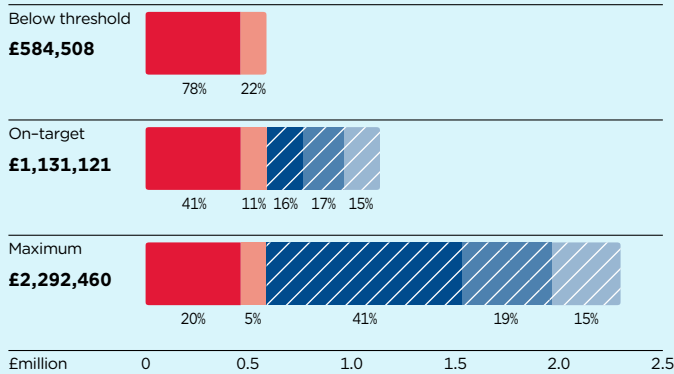
Andy Harrison



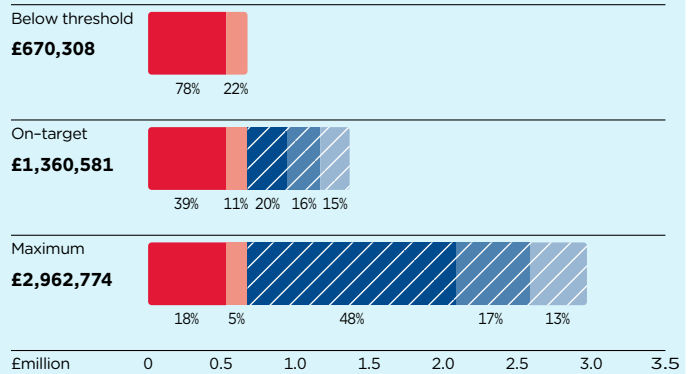
Nicholas Cadbury



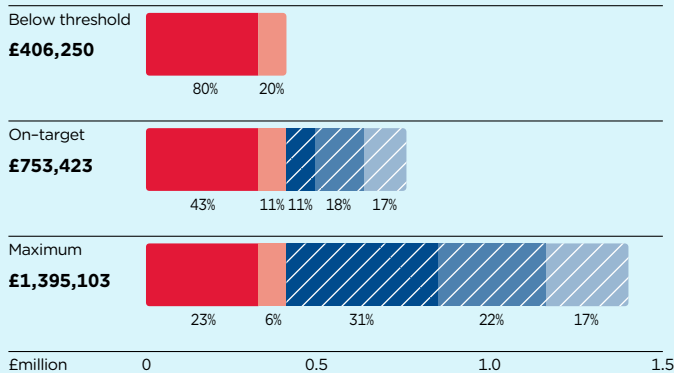
Patrick Dempsey



Christopher Rogers



Louise Smalley



Key

Fixed elements

- Salary
- Pension

Variable elements

- LTIP
- Deferred shares
- Cash bonus

On-target performance assumes on-target profit, a mix of green and amber WINcard scores and threshold vesting under the LTIP. Maximum performance assumes maximum profit, all green WINcard scores and maximum LTIP vesting. In both cases, for simplicity, no share price growth is assumed.

There are two types of measure used to determine the level of awards under the scheme. There is a **profit measure** and there are a number of **WINcard measures** (or other stakeholder measures as may be deemed appropriate by the Remuneration Committee). The scheme is designed to incentivise executives to deliver great results by providing an excellent environment for our people, and giving them the tools to make everyday experiences special for our customers. One Winning Teams measure and one Customer Heartbeat measure have been upweighted to reflect the importance of those elements to Whitbread's success. In addition, there is a health and safety measure, which acts as a hurdle, demonstrating our determination to provide a safe environment for employees and customers alike. The profit measure is the most incentivised element with an award to the value of 137% of salary available for maximum performance, whilst the WINcard element has a potential value of 30% of salary.

Long Term Incentive Plan

For the LTIP, subject to shareholder approval of the new scheme at the 2014 AGM, the performance conditions will be structured as follows:

- EPS and ROCE measures on a matrix basis (as shown on page 76);
- up to 75% of awards are dependent on EPS growth over the three-year performance period, subject to a satisfactory ROCE performance;
- ROCE will be used as a multiplier on a straight-line sliding scale basis to increase the EPS element by up to a further third;
- no element of the award will vest if a minimum level of ROCE, which is set materially above the Group's cost of capital, is not achieved in the final year of the performance period;
- awards will be subject to clawback and malus provisions; and
- a two-year post vesting holding period will apply.

These performance conditions were selected because the Committee believes that they closely align the LTIP with the strategic aims of the Group; to grow its leading brands whilst delivering returns in excess of the cost of capital in order to create significant shareholder value. The performance range for awards to be made in 2015 will be determined by the Remuneration Committee in April 2015 taking account of available information at that time.

Changes to the remuneration policy in 2013/14

With the exception of the new LTIP scheme outlined in the Policy Table, which will be put to shareholders for approval at the 2014 AGM, and some amendments to the company car scheme there have been no other changes to the Group's remuneration policy during the year and no new elements of remuneration have been introduced. Under the updated company car scheme, executive directors will no longer be entitled to a company car, but will receive cash in lieu of a car. As explained on page 71, new strengthened shareholding requirements have been introduced.

Service contracts and external appointments

The key terms of the executive directors' service contracts are as follows:

- notice period — six months by the director and 12 months by the Company;
- termination payment — see policy on payment for loss of office below;
- sickness — full salary for a maximum of 12 months in any three-year period or for a maximum of nine consecutive months; and
- non-compete — for six months after leaving.

The dates of the executive directors' service contracts, which can be found on the Company's website, are as follows:

Andy Harrison	3 March 2010
Nicholas Cadbury	3 September 2012
Patrick Dempsey	26 March 2013
Christopher Rogers	18 February 2013
Louise Smalley	25 October 2012

The executive directors are entitled to retain fees from external directorships.

Policy on payment for loss of office

Base salary and contractual benefits

All of the executive directors have a rolling service contract with a 12-month notice period from the Company. The Company may make a payment in lieu of notice to include up to 12 monthly payments of base salary and the cash equivalent of pension contributions. The Company may either allow for contractual benefits to continue during this time or, at its sole discretion, pay the value of those benefits on a monthly basis. Neither notice nor payment in lieu of notice would be given if a director left by reason of gross misconduct.

A director is under a contractual duty to mitigate his or her position by actively seeking an alternative remunerated position and the Company will make a corresponding reduction in any payment made for loss of office. Where a payment in lieu of notice is not applicable, the payment of salary and contractual benefits would cease on the individual's leaving date.



Remuneration policy report continued

Annual Incentive Scheme

If a director leaves the Company for a 'permitted reason' under the rules of the scheme (or if the Committee decides to apply 'good leaver' status in accordance with the discretion outlined on page 66 of this report), the default position would be that deferred shares would vest on the date of leaving and a pro-rated cash award would be made for the incentive year. No new deferred shares would be awarded and the director would receive a pro-rated cash payment in lieu of the deferred shares. Notwithstanding the above, the Committee has the discretion to make a deferred shares award for the incentive year, with such award due to vest at the same time as the awards made to continuing employees for that year.

If a director leaves the Company for any other reason, 25% of an outstanding award of deferred shares would vest if the leaving date was between one and two years from the date of grant and 50% of an outstanding award would vest if the leaving date was between two and three years from the date of grant. Any other unvested deferred shares would lapse on the date of leaving. The director would receive no cash incentive payment for the financial year in which they leave and no deferred shares would be awarded.

In the event that a director was to leave the Company by reason of gross misconduct, the malus provisions may be applied and no deferred shares would vest.

Long Term Incentive Plan

If a director leaves the Company for a 'permitted reason' under the rules of the plan (or if the Committee decides to apply 'good leaver' status in accordance with the discretion outlined on page 66 of this report), the default position would be that any unvested LTIP awards would be pro-rated for time served. Performance would be tested at the end of the standard three-year performance period and the pro-rated awards would vest at the same time as for continuing employees. No LTIP award would be made in the final year of employment if the Company was aware that the director would be leaving at the point that awards are made.

If a director leaves the Company for any other reason any unvested LTIP awards would lapse at the date of leaving. Vested, but unexercised, LTIP awards (including those subject to a holding period) would be exercisable for the latter of six months from the date of leaving or six months from the end of the holding period.

In the event that a director was to leave the Company by reason of gross misconduct, the clawback and/or malus provisions may be applied.

Approach to remuneration on recruitment

Our approach to recruitment is that remuneration should be set in line with the policy table on pages 60 and 61. Whilst we would not seek to vary this approach there may be circumstances in which it is necessary to do so.

On the appointment of a new executive director, base salary levels will be set taking into account a range of factors including market levels, experience, internal salaries and cost. If an individual is appointed on a base salary below the market positioning contingent on individual performance, the Committee retains the discretion to realign base salary over the one-to-three years following appointment which may result in an exceptional rate of annualised increase. If the Committee intends to rely on this discretion, it will be noted in the first directors' remuneration report following an individual's appointment.

Other elements of annual remuneration will be set in line with the policy set out in the policy table. As such, variable remuneration will be capped at 167% of salary under the Annual Incentive Scheme and an award of up to 200% of salary under the Long Term Incentive Plan. The following exceptions will apply:

- in the event that an internal appointment is made, the Committee retains the discretion to continue with existing remuneration provisions relating to pension and benefits;
- as deemed necessary and appropriate to secure an appointment, the Committee retains the discretion to make additional payments linked to relocation; and
- the Committee retains the discretion to make an additional award in exceptional circumstances up to 200% of salary under the Long Term Incentive Plan and/or an award on similar terms, to provide an immediate interest in company performance; and
- the Committee may also make an additional award of cash or shares on appointment of a new director in order to compensate for the forfeiture of an award from a previous employer. Such awards would be on a comparable basis, taking account of performance, the proportion of the performance period remaining and the type of award. The Committee will set appropriate performance conditions and vesting would be on the same time horizon as the forfeited award. The Committee would take into account the strategy at Whitbread and may also require the appointee to purchase shares in Whitbread to a pre-agreed level prior to vesting.

Service contracts will be entered into on terms similar to those for the existing executive directors, summarised in our service contract policy section. However, if necessary the Committee would authorise the payment of a relocation allowance and repatriation, as well as other associated international mobility terms or agree terms appropriate to the local market for a director based overseas.

With respect to the appointment of a new Chairman or non-executive director, the approach will be consistent with that currently adopted. Variable pay will not be considered and as such no maximum applies. With respect to non-executive directors, fees will be consistent with policy at the time of appointment. If necessary, to secure the appointment of a new Chairman not based in the UK, payments relating to relocation and/or housing could be considered.

A timely announcement with respect to any director appointment will be made to the regulatory news services and posted on Whitbread's website.

Comparison of executive remuneration policy with wider employee population

This section of the report describes each element of the executive remuneration package and explains the extent to which those elements are made available to the wider employee population. The Committee did not consult employees, other than those in relevant roles, when developing the directors' remuneration policy.

Base salary

All employees, including the executive directors, receive an annual review of base salary. Under normal circumstances the annual increase in salary for an executive director will be in the same range as the increase for employees across the Group.

However, the individual circumstances of each employee are taken into account and, if exceptional circumstances exist, any employee may receive an increase higher than the standard rate. In the case of the executive directors, the Remuneration Committee would take into account a range of factors when setting the level of a pay increase including changes to salaries across the Group, the personal performance of the director measured against agreed objectives, current trading circumstances and our remuneration policy.

Benefits

Approximately 840 employees across the Group are entitled to a company car or cash in lieu of a company car. The scheme is structured so that the level of the allowance is on a sliding scale with employees on higher grades receiving a larger allowance. The executive directors are no longer entitled to a company car under this scheme, but are entitled to receive cash in lieu of a car.

Approximately 2,000 employees are entitled to participate in the Group's private healthcare scheme, with 660 of these, including the executive directors, entitled to family cover. In addition, a small number of senior executives, including the executive directors, are entitled to annual health screening.

All employees receive discounts on Company products, but the directors have waived their right to this benefit. Employees, including the executive directors, have access to subsidised restaurants within the Company's offices in Dunstable and Luton and to free Costa coffee within the Company's offices.

Whitbread's Sharesave scheme is a standard HMRC approved SAYE scheme. It is offered to all UK employees, including the executive directors, on equal terms. The Company has shareholder approval to extend its share schemes overseas and the Remuneration Committee retains the discretion to establish a Sharesave scheme outside of the UK in the future.

Annual Incentive Scheme

Approximately 6,000 employees are eligible to receive an annual incentive payment linked to the achievement of the same profit and WINcard targets as those described on pages 75 and 76 for executives under the Annual Incentive Scheme. The majority of participants are entitled to earn a maximum annual incentive payment of 10% of salary paid in cash. As employees progress into more senior roles the maximum payment that can be achieved rises to 40%. Approximately 90 executives, including the executive directors, are entitled to participate in the Annual Incentive Scheme with maximum payouts, split between cash and deferred shares, ranging from 60% to 167%.

Long Term Incentive Plan

Approximately 40 executives, including the executive directors, participate in the LTIP. This scheme is not available to the wider employee population.

Pension

Like all employees, the executive directors are entitled to participate in the Company's pension scheme. The scheme is a defined contribution scheme. The levels of contribution for employees vary depending on the job grade of the individual, with employees at the entry level able to contribute 2% of their salary and receive a Company contribution of 3% of salary. Life assurance is provided to employees who choose to join the pension scheme. Employees who do not choose to participate may be automatically enrolled with contributions in line with the automatic enrolment regulations.

The policy on pension contributions for the executive directors is that there is an upper limit for Company contributions of 27.5% of salary. No future executive director will receive contributions above 25% of salary.



Remuneration policy report continued

Consideration of shareholder views

We contacted our twenty largest investors, as well as the ABI and ISS, in February 2014 to consult on our proposed new LTIP. The responses received were positive and supportive and provided some helpful feedback on our proposals. In particular, the new post vesting holding period, the introduction of clawback and malus clauses and the strengthening of our shareholding requirements were welcomed.

Legacy matters

As previously disclosed, Alan Parker received 27,901 deferred shares under the Annual Incentive Scheme on 1 March 2011 in respect of his final year with the Company. These shares are due to vest on 29 April 2014. There are no other outstanding share awards or payments due to former directors of the Company.

Remuneration Committee discretion

The Remuneration Committee retains the discretion to apply 'good leaver' terms to leavers in respect of both the Annual Incentive Scheme and the LTIP. In exercising its discretion, the Committee must consider the individual circumstances in the particular case and must not exercise its discretion in a way which would be discriminatory on grounds of sex, race, age or any other protected characteristic within the meaning of Section 4 of the Equality Act 2010.

The Committee must also, so far as it is able to do so, exercise its discretion in a way which is consistent as between individuals who are in the same position.

Under the rules of the Annual Incentive Scheme, if 'good leaver' terms apply, any deferred share awards vest in full on the date of leaving and may be exercised within six months. Under the rules of the LTIP, the award would vest subject to the satisfaction of performance conditions, at the end of the performance period. The number of shares vesting would be on a pro-rata basis taking account of the proportion of the performance period that the individual had been employed within the Group. The vested award would be exercisable for a period of six months from the date on which the award is declared to be vested. On occasions where the Committee exercises this discretion the participant would be expected to continue to meet the shareholding requirement until the award vests and failure to do so would result in the lapsing of the award. No LTIP grants will be made within the last twelve months of employment to any employee who has requested, and been granted, 'good leaver' status.

In addition the Remuneration Committee has a number of discretions relating to the appointment of new directors as outlined on pages 64 and 65.

In exceptional circumstances, the Remuneration Committee has the discretion to amend the profit range (normally between 95% and 110% of target) as well as the split between the awards based on profit measures and WINcard or other stakeholder measures, and the split between awards paid in cash and deferred shares, for a new incentive year under the Annual Incentive Scheme.

The Committee sets the performance targets for the LTIP and the Annual Incentive Scheme on an annual basis. The Committee may change a performance target from time to time in the event that it considers it fair and reasonable to do so. Any change to an existing performance target must not have the effect, in the opinion of the Committee, of making the target materially easier or materially more difficult to achieve than it was when the award was initially granted.

The Chairman and non-executive directors' fees

Although the fees paid to the non-executive directors are not a matter for the Remuneration Committee, details are provided in this report in order to comply with regulations. The Chairman receives an annual fee and the non-executive directors receive a base fee, with additional fees for acting as the Senior Independent Director or for chairing, or being a member of, the Audit or Remuneration Committees.

The fees are reviewed every two years by the executive directors taking into account a range of factors including the time commitment required of the directors, the responsibilities of the role and the fees paid by other similar companies.

The Chairman and non-executive directors are entitled to claim business expenses, but do not receive any other fees or remuneration in connection with their roles at Whitbread.

Neither the Chairman nor any of the non-executive directors has a service contract.

Annual report on remuneration

Remuneration Committee – membership, key duties and advisers

Members of the Remuneration Committee

- | | |
|----------------------------------|-----------------------------|
| • Stephen Williams
(Chairman) | • Sir Ian Cheshire |
| • Richard Baker | • Anthony Habgood |
| • Wendy Becker | • Simon Barratt (Secretary) |

Key duties

Full terms of reference are available on the Company's website.

Remuneration Committee – key duties

- Set the broad policy for the remuneration of the Chairman and the executive directors.
- Within the terms of the agreed policy, to determine the total individual remuneration package (including bonuses, share awards and other benefits) of the Chairman and each executive director.
- Monitor the structure and level of remuneration of Executive Committee members.
- Approve the design of, and determine the targets for, incentive schemes.
- Approve awards to be made to executive directors and other senior executives under incentive schemes.
- Ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised.

Internal advisers

Simon Barratt – General Counsel
Louise Smalley – Group HR Director

External advisers

Towers Watson were appointed remuneration consultants by the Committee following a rigorous tender process. A separate part of Towers Watson provides investment advice and actuarial services in relation to the pension fund. Fees paid to Towers Watson in respect of advice received by the Committee amounted to £48,969.

Slaughter and May – legal advisers (Slaughter and May also provide legal services to the Company). Fees paid to Slaughter and May in respect of remuneration issues amounted to £16,450.

The Committee is satisfied that the advice received is independent and objective.

Remuneration Committee agenda – 2013/14

- Approval of Annual Incentive Scheme targets for 2013/14.
- Approval of awards of cash and deferred shares to executive directors under the Annual Incentive Scheme.
- Executive directors' salary review.
- Approval of 2013 LTIP awards.
- Confirmation of the performance conditions for the 2013 LTIP awards.
- Confirmation of the vesting percentages for the LTIP award made in 2010 and vesting in 2013.
- Approval of the 2013 remuneration report.
- Approval of updated terms of reference.
- Design of new LTIP and consultation with shareholders.
- Remuneration principles and structure for 2014/15.
- Approval of strengthened shareholding requirements.

Single total figure of remuneration (audited information) – executive directors

Director	Basic salary		Benefits		Annual Incentive Scheme		LTIP		Pension		Total	
	2013/14 £'000	2012/13 £'000	2013/14 £'000	2012/13 £'000	2013/14 £'000	2012/13 £'000	2013/14 £'000	2012/13 £'000	2013/14 £'000	2012/13 £'000	2013/14 £'000	2012/13 £'000
Andy Harrison	731	718	26	26	1,012	897	4,444 ¹	1,633	161	158	6,374	3,432
Nicholas Cadbury ²	460	136	21	6	635	169	—	—	107	27	1,223	338
Patrick Dempsey	446	425	21	21	566	499	854	640	113	109	2,000	1,694
Christopher Rogers	514	505	22	23	702	684	1,308	890	124	122	2,670	2,224
Louise Smalley ²	300	100	19	6	414	124	129	22	72	24	934	276

1 Includes £2.58 million in respect of a one-off matching award made to Andy Harrison on appointment.

2 Nicholas Cadbury and Louise Smalley joined the Board during the year 2012/13. For Louise Smalley, the figures shown relate only to the time served as a director.

Details of each of the elements included in the table above are as follows:

Base salary

The base salary numbers shown in the table include two months' of pay based on the director's salary from 1 May 2012 (or at the date of appointment as applicable) and ten months' pay based on the director's salary from 1 May 2013.

Benefits

The benefits received by each executive director include family private healthcare and a cash allowance in lieu of a company car.

Annual Incentive Scheme

The Annual Incentive Scheme payments shown above include both a cash payment to be made in May 2014 and deferred shares to be issued in April 2014. The awards were calculated as described below.

Awards based on profit measure

The profit targets for 2013/14 have not been disclosed, because the Board considers them to be commercially sensitive. Many of Whitbread's competitors are private companies and not therefore subject to the same disclosure requirements. We believe that it would give those companies an advantage if they were able to see our profit targets. The Committee will keep this disclosure under review.

The awards to be made based on the profit measure are as follows:

Director	% of salary in cash	% of salary in deferred shares	Total % of salary
Andy Harrison	39.5	71.5	111.0
Nicholas Cadbury	39.5	71.5	111.0
Patrick Dempsey	36.7	66.7	103.4
Christopher Rogers	38.3	69.3	107.6
Louise Smalley	39.5	71.5	111.0

Awards based on WINcard measures

The WINcard targets in 2013/14 were appropriate to the director's role. For example, Patrick Dempsey had WINcard measures specific to Hotels & Restaurants and Christopher Rogers had Costa specific measures. Nicholas Cadbury, Andy Harrison and Louise Smalley each had Group targets, some of which are a combination of the Costa and Hotels & Restaurants measures.

The WINcard results are as shown in the table below:

WINcard measure	Andy Harrison Nicholas Cadbury Louise Smalley % of salary	Patrick Dempsey % of salary	Christopher Rogers % of salary
Winning Teams			
Team engagement ¹	9.0	9.0	9.0
Health and safety ²	n/a	n/a	n/a
Customer Heartbeat			
Family measure/ brand standards	3.0	3.0	3.0
Brand performance ¹	9.0	4.5	9.0
Profitable Growth			
Brand growth/ market performance	0	0	1.5
Like for like sales growth	3.0	3.0	3.0
Good Together			
Energy consumption/ wastage	3.0	3.0	3.0
Total	27.0	22.5	28.5

1 The team engagement and brand performance measures are upweighted, meaning that 9% of salary is payable for a green score and 4.5% of salary for an amber score. Payments in respect of all other measures (except for health and safety) are 3% of salary for a green score and 1.5% of salary for an amber score.

2 The health and safety measure acts as a hurdle. If the health and safety score had been red, payouts for the other WINcard measures would have been reduced by 20%. If the score had been amber, a 10% reduction would have applied.

More information on the actual targets and outcomes for these measures can be found on pages 34 to 37.

As a result, the awards to be made based on WINcard measures are as follows:

Director	% of salary in cash	% of salary in deferred shares	Total % of salary
Andy Harrison	21.6	5.4	27.0
Nicholas Cadbury	21.6	5.4	27.0
Patrick Dempsey	18.0	4.5	22.5
Christopher Rogers	22.8	5.7	28.5
Louise Smalley	21.6	5.4	27.0

Total awards

The split between cash and deferred shares is as follows:

Director	Cash award £'000	Cash value of deferred shares award £'000	Total £'000
Andy Harrison	448	564	1,012
Nicholas Cadbury	281	354	635
Patrick Dempsey	246	320	566
Christopher Rogers	315	387	702
Louise Smalley	183	231	414

The deferred shares will, under normal circumstances, vest on 1 March 2017, subject to continued employment within the Group. No further performance conditions apply to these awards. Malus provisions apply to the deferred share awards in the event, for example, of a material misstatement of results. The share price used to calculate the awards was the average of closing price of a Whitbread share for the five business days preceding 1 March 2014 (i.e. 4,289.0p).

The number of deferred shares awarded to each director will be as follows:

Director	Number of deferred shares awarded
Andy Harrison	13,151
Nicholas Cadbury	8,246
Patrick Dempsey	7,463
Christopher Rogers	9,028
Louise Smalley	5,377

Long Term Incentive Plan

The amounts shown in the table on page 68 refer to the value of the LTIP awards made in 2011 and vesting in 2014. For Louise Smalley, the amount is pro-rated based on the proportion of the performance period that she has been a director (i.e. 16 months out of 36). Andy Harrison's figure also includes a matching award that was made to him on his appointment, which was contingent on Andy purchasing, and retaining, Whitbread shares to the value of £1 million.

The value given for the LTIP awards is based on the average market value over the last quarter of the financial year (3,816.8p), as the awards will not vest until after the date of this Report.

The LTIP awards made to executives in 2011 were subject to independently operating performance conditions as set out in the table below. The outcome of each condition is also shown in the table.

Performance conditions (each applicable to half of the total award)	Outcome	Performance versus target
TSR growth against selected FTSE 51–150 constituents – median (25% vests) to upper quartile (100% vests).	Whitbread was ranked 5th out of 52 representing upper quartile performance.	100%
Underlying basic EPS growth must be at least equal to or exceed RPI + 4% per annum (25% vests) to RPI + 10% per annum (100% vests).	The EPS growth over the three-year performance period was in excess of RPI + 10% per annum.	100%

As a result, 100% of the shares awarded under the 2011 LTIP will vest. The awards vesting to the executive directors are as follows:

Director	Number of shares vested
Andy Harrison	48,953
Patrick Dempsey	22,378
Christopher Rogers	34,267
Louise Smalley	3,380 ¹

¹ The numbers shown represent the shares vesting based on the proportion of the performance period that Louise Smalley was a director as required by the regulations. This was 16 months out of 36. The total number of shares vesting to Louise will be 7,606.

In addition Andy Harrison was given a matching award over 67,468 shares on his appointment. This was disclosed in the 2010/11 Annual Report. The award was subject to performance conditions, which were in line with those for the general 2011 LTIP award. In addition Andy was required to retain at least the same number of shares until vesting, which he has done. As explained above, the performance conditions have been met in full and 67,468 shares will vest.

Annual report on remuneration continued

Pension

The percentage of salary received by the executive directors in pension contributions is shown in the table below.

Director	% of salary
Andy Harrison	25.0
Nicholas Cadbury	25.0
Patrick Dempsey	27.5
Christopher Rogers	27.5
Louise Smalley	25.0

Executives are able to elect to receive a monthly amount in cash (less an amount equal to the employer's national insurance contribution) in lieu of the pension contribution. Currently, Andy Harrison and Christopher Rogers have elected to receive a cash payment, while Nicholas Cadbury, Patrick Dempsey and Louise Smalley each receive a pension contribution and a cash supplement representing the balance over and above the annual allowance set by HMRC for pension contributions. With effect from March 2014, Patrick Dempsey has elected to receive a cash payment in lieu of his pension contribution.

Single total figure of remuneration (audited information) – Chairman and non-executive directors

Director	Base fee		Senior Independent Director fee		Fee as Chairman of a Board Committee		Fee as a member of a Board Committee		Total	
	2013/14 £'000	2012/13 £'000	2013/14 £'000	2012/13 £'000	2013/14 £'000	2012/13 £'000	2013/14 £'000	2012/13 £'000	2013/14 £'000	2012/13 £'000
Anthony Habgood	325	325	—	—	—	—	—	—	325	325
Richard Baker	55	55	—	—	—	—	10	10	65	65
Wendy Becker	55	55	—	—	—	—	10	10	65	65
Sir Ian Cheshire	55	55	2	—	12	15	1	—	70	70
Susan Hooper ¹	46	55	—	—	—	—	4	5	50	60
Simon Melliss	55	55	—	—	15	15	—	—	70	70
Susan Taylor Martin	55	55	—	—	—	—	5	5	60	60
Stephen Williams	55	55	8	10	3	—	4	5	70	70

¹ Fees for part year. Susan stepped down from the Board on 1 January 2014.

Statement of directors' shareholding and share interests (audited information)

The Committee believes that the shareholding requirements for executives, which have replaced the previous guidelines, play an important role in the alignment of the interests of executives and shareholders and help to incentivise executives to deliver sustainable long-term performance.

The Chief Executive is required to build and hold a shareholding at least equal to 200% of salary, whilst the other executive directors are expected to reach a holding to the value of 125% of salary and other senior executives 75% of salary. Until they reach this level, executives are expected to retain 100% of vested awards (after the deduction of income tax, national insurance contributions and dealing fees). In addition, a newly appointed executive director is expected to build a shareholding in the Company in advance of any share awards vesting. The failure to adhere to these requirements may lead to the executive being excluded from participation in future share scheme awards. It should be noted that any vested LTIP awards subject to a holding

period will not be counted for the purpose of calculating whether an executive has met his or her requirement. When determining whether a director has met the requirement, both the current market price and the price at the point the shares were acquired will be taken into consideration.

All of the executive directors except for Nicholas Cadbury, who was appointed in November 2012, have already met the increased requirement. Nicholas has begun to build a holding in the Company in advance of the first vesting of an award, which is due in 2015 subject to the satisfaction of performance conditions.

Since the year-end, shareholding requirements have been introduced for the Chairman and the non-executive directors. They are each required to build a holding to the value of 100% of their annual fee over a three-year period. We will report on progress against this requirement in next year's report.

The table below shows the holdings of executive directors as at 27 February 2014:

Director	Counting towards requirement			Performance versus requirement			Additional awards	
	Number of ordinary shares	Value based on purchase price £'000	Value based on market price £'000	Shareholding requirement % of salary	% of salary based on purchase price	% of salary based on market price	Awards subject to performance conditions ¹	Awards not subject to performance conditions ²
Andy Harrison	232,236	4,065	8,864	200	554	1,208	88,039	183,955
Nicholas Cadbury	1,100	34	42	125	7	9	39,270	11,918
Patrick Dempsey	35,326	602	1,348	125	134	300	45,693	67,554
Christopher Rogers	50,000	600	1,908	125	116	370	61,928	130,573
Louise Smalley	20,943	571	799	125	190	266	29,578	36,879

1 Includes outstanding LTIP awards for which performance has not yet been tested.

2 Includes unvested/unexercised deferred shares under the Annual Incentive Scheme and unexercised LTIP awards for which the performance targets have already been met.

The table below shows the holdings of the Chairman and the non-executive directors as at 27 February 2014:

Director	Number of ordinary shares
Anthony Habgood	50,275
Richard Baker	12,445
Wendy Becker	6,000
Sir Ian Cheshire	313
Susan Hooper ¹	800
Simon Melliss	3,000
Susan Taylor Martin	500
Stephen Williams	10,884

1 Details shown for Susan Hooper are as at 1 January 2014.

There has been no change to the interests in the tables shown on this page between the end of the financial year and the date of this Report. However, the column showing awards not subject to performance conditions in the executive directors' table do include the deferred shares issued under the incentive scheme in 2014 even though these awards were actually made after the year-end.



Annual report on remuneration continued

Overview p1/5

Strategic report p6/43

Governance p44/81

Consolidated accounts 2013/14 p83/133

Company accounts 2013/14 p135/142

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

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

Director	Balance at 1 March 2013	Awarded	Lapsed	Exercised	Balance at 27 February 2014	Conditional award granted	Performance period concludes	Market price at award p	Date vested award exercised	Price at exercise p	Monetary value of exercised award £'000
Andy Harrison	86,584	—	8,858	77,726	—	01/09/2010	28/02/2013	1414.8	16/05/2013	2716.0	2,111
	48,953	—	—	—	48,953	01/03/2011	27/02/2014	1787.4	—	—	—
	67,468 ¹	—	—	—	67,468	01/03/2011	27/02/2014	1787.4	—	—	—
	52,565	—	—	—	52,565	01/03/2012	26/02/2015	1687.0	—	—	—
	—	35,474	—	—	35,474	01/03/2013	03/03/2016	2554.0	—	—	—
	255,570	35,474	8,858	77,726	204,460						2,111
Nicholas Cadbury	16,527	—	—	—	16,527	01/03/2012	26/02/2015	1687.0	—	—	—
	—	22,743	—	—	22,743	01/03/2013	03/03/2016	2554.0	—	—	—
	16,527	22,743	—	—	39,270						—
Patrick Dempsey	28,272	—	2,893	25,379	—	01/03/2010	28/02/2013	1414.8	15/05/2013	2709.7	668
	22,378	—	—	—	22,378	01/03/2011	27/02/2014	1787.4	—	—	—
	24,616	—	—	—	24,616	01/03/2012	26/02/2015	1687.0	—	—	—
	—	21,077	—	—	21,077	01/03/2013	03/03/2016	2554.0	—	—	—
	75,266	21,077	2,893	25,379	68,071						668
Christopher Rogers	60,612	—	—	60,612	—	01/03/2009	01/03/2012	734.5	09/05/2013	2644.5	1,603
	39,334	—	4,024	—	35,310	01/03/2010	28/02/2013	1414.8	—	—	—
	34,267	—	—	—	34,267	01/03/2011	27/02/2014	1787.4	—	—	—
	36,975	—	—	—	36,975	01/03/2012	26/02/2015	1687.0	—	—	—
	—	24,953	—	—	24,953	01/03/2013	03/03/2016	2554.0	—	—	—
	171,188	24,953	4,024	60,612	131,505						1,603
Louise Smalley	16,827	—	—	16,827	—	01/03/2009	01/03/2012	734.5	16/05/2013	2716.0	457
	8,736	—	894	7,842	—	01/03/2010	28/02/2013	1414.8	16/05/2013	2716.0	213
	7,606	—	—	—	7,606	01/03/2011	27/02/2014	1787.4	—	—	—
	14,746	—	—	—	14,746	01/03/2012	26/02/2015	1687.0	—	—	—
	—	14,832	—	—	14,832	01/03/2013	03/03/2016	2554.0	—	—	—
	47,915	14,832	894	24,669	37,184						670

¹ As explained in the 2010/11 Annual Report, under the terms of Andy Harrison's appointment, he received a matching award over 67,468 shares on 1 March 2011. The award was subject to the satisfaction of performance conditions and the retention of the same number of shares previously purchased by Andy. The performance conditions were in line with those for the general 2011 LTIP award, except that there would have been no vesting at median performance. This award will vest in full, as explained on page 69.

LTIP performance conditions — past awards

	Performance metrics	TSR condition	EPS condition
2009 award	50% TSR and 50% EPS.	TSR growth against selected FTSE 51–150 constituents — median (25% vests) to upper quartile (100% vests).	2012/13 underlying basic EPS — less than 92p, nil vesting; 92p, 25% vests; 107p or more, 100% vests; and between 92p and 107p, pro-rating between 25% and 100% vesting applies.
2008, 2010 and 2011 awards	50% TSR and 50% EPS.	TSR growth against selected FTSE 51–150 constituents — median (25% vests) to upper quartile (100% vests).	Underlying basic EPS growth must be at least equal to or exceed RPI + 4% per annum (25% vests) to RPI + 10% per annum (100% vests).
2012 award	Based on underlying basic EPS growth above RPI per annum of 4% to 10% on a sliding scale with a one-third multiplier based on ROCE in 2015/16 of 12% to 16.7%. ROCE also acts as a hurdle.		
2013 award	Based on underlying basic EPS growth above RPI per annum of 4% to 10% on a sliding scale with a one-third multiplier based on ROCE in 2015/16 of 12% to 17.0%. ROCE also acts as a hurdle.		

LTIP performance conditions — future awards

Details of the performance conditions for the awards to be made in 2014 can be found on page 76.

Annual Incentive Scheme ('the Scheme') (audited information)

At 27 February 2014 the directors held the following deferred shares under the Scheme:

Director	Year of award	Balance at 1 March 2013	Awarded	Lapsed	Exercised	Balance at 27 February 2014	Release date	Market price at award p	Date award exercised	Market price at vesting p	Monetary value of vested award £'000
Andy Harrison	2011	18,281	—	—	—	18,281	29/04/2014 ¹	1787.4	—	—	—
	2012	16,618	—	—	—	16,618	01/03/2015	1687.0	—	—	—
	2013	19,484	—	—	—	19,484	01/03/2016	2554.0	—	—	—
	2014	—	13,151	—	—	13,151	01/03/2017	4487.0	—	—	—
			54,383	13,151	—	—	67,534				
Nicholas Cadbury	2013	3,672	—	—	—	3,672	01/03/2016	2554.0	—	—	—
	2014	—	8,246	—	—	8,246	01/03/2017	4487.0	—	—	—
		3,672	8,246	—	—	11,918					—
Patrick Dempsey	2010	26,210	—	—	26,210	—	30/04/2013 ¹	1414.8	02/05/2013	2616.1	686
	2011	19,698	—	—	—	19,698	29/04/2014 ¹	1787.4	—	—	—
	2012	7,291	—	—	—	7,291	01/03/2015	1687.0	—	—	—
	2013	10,724	—	—	—	10,724	01/03/2016	2554.0	—	—	—
	2014	—	7,463	—	—	7,463	01/03/2017	4487.0	—	—	—
		63,923	7,463	—	26,210	45,176					686
Christopher Rogers	2010	29,579	—	—	29,579	—	30/04/2013 ¹	1414.8	08/05/2013	2644.5	782
	2011	25,316	—	—	—	25,316	29/04/2014 ¹	1787.4	—	—	—
	2012	11,689	—	—	—	11,689	01/03/2015	1687.0	—	—	—
	2013	14,963	—	—	—	14,963	01/03/2016	2554.0	—	—	—
	2014	—	9,028	—	—	9,028	01/03/2017	4487.0	—	—	—
		81,547	9,028	—	29,579	60,996					782
Louise Smalley	2010	13,686	—	—	13,686	—	30/04/2013 ¹	1414.8	16/05/2013	2716.0	372
	2011	11,393	—	—	—	11,393	29/04/2014 ¹	1787.4	—	—	—
	2012	5,302	—	—	—	5,302	01/03/2015	1687.0	—	—	—
	2013	7,201	—	—	—	7,201	01/03/2016	2554.0	—	—	—
	2014	—	5,377	—	—	5,377	01/03/2017	4487.0	—	—	—
		37,582	5,377	—	13,686	29,273					372

¹ Under the rules of the Scheme awards cannot vest during a close or prohibited period. The normal release dates for the 2010 and 2011 awards would have been 1 March 2013 and 1 March 2014 respectively. However, as these dates were during close periods the 2010 awards actually released on 30 April 2013 and the 2011 awards will become exercisable on the next day on which dealings are permitted. It is anticipated that this will be 29 April 2014, the date on which the full-year results are released.

Annual report on remuneration continued

Share options (audited information)

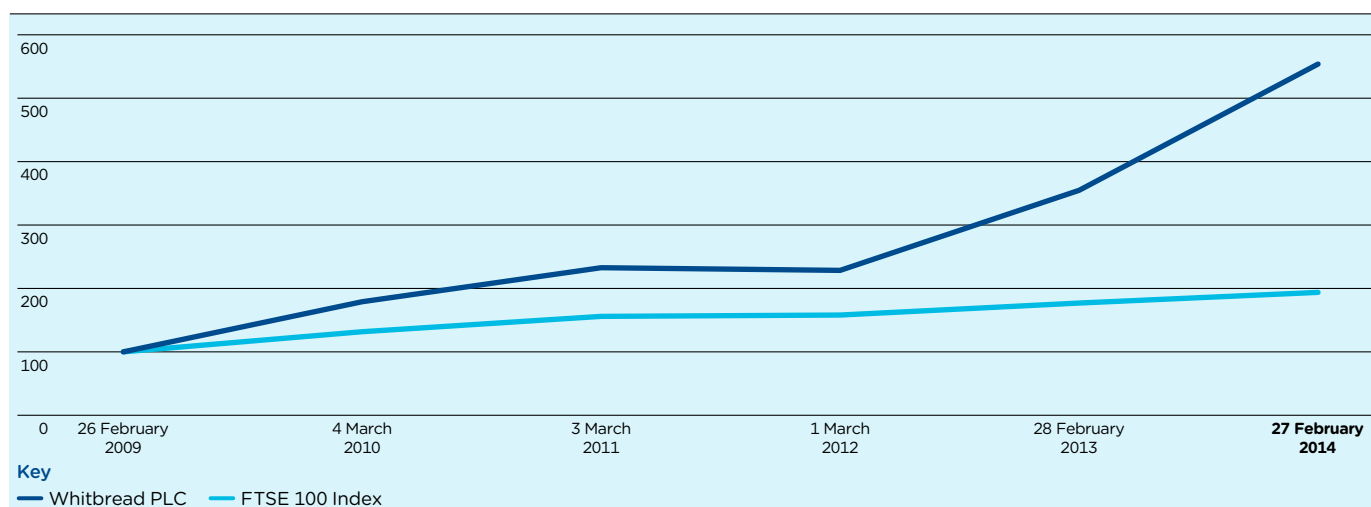
Executive directors may participate in the Company's Savings-related Share Option Scheme (the 'Scheme'), which is open to all employees on the same terms.

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

At 27 February 2014 the directors held the following share options under the Scheme, with the latest exercise date being July 2017. Savings-related share options have a six-month exercise period.

Director	Number of shares	Date of grant	Exercise price p	Exercise date	Last exercise date
Andy Harrison	672	02/12/2011	1339.2	01/02/2015	31/07/2015
Total	672	(672 at 28/02/2013)			
Nicholas Cadbury	327	29/11/2013	2746.4	01/02/2017	31/07/2017
Total	327	(nil at 28/02/2013)			
Patrick Dempsey	1,076	03/12/2010	1414.0	01/02/2016	31/07/2016
Total	1,076	(1,076 at 28/02/2013)			
Christopher Rogers	1,076	03/12/2010	1414.0	01/02/2016	31/07/2016
Total	1,076	(1,076 at 28/02/2013)			
Louise Smalley	470	30/11/2012	1913.6	01/02/2016	31/07/2016
Total	470	(470 at 28/02/2013)			

Total shareholder return



The chart looks at the value over five years of £100 invested in Whitbread PLC on 26 February 2009 compared, on a consistent basis, with that of £100 invested in the FTSE 100 index based on 30 trading day average values. The FTSE 100 Index has been used because, given the Company's position within that index, the Committee believes it to be the most appropriate. Source: Thomson Reuters Datastream.

Payments to past directors (audited information)

With the exception of regular pension payments and dividends on Whitbread shares, no payments were made during the year to past directors.

Chief Executive's remuneration

The Chief Executive's remuneration (including base salary, benefits and annual incentive payment) increased by 7.8% in the year, compared with an increase of 3.1% for the Group's employees as a whole.

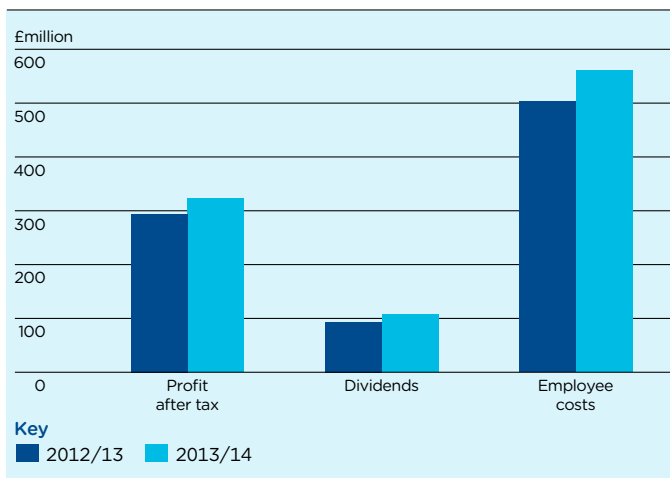
The following table shows the Chief Executive's pay over the last five years, with details of the percentage of maximum paid out under the annual incentive scheme and the LTIP vesting percentage for each year.

Year	Chief Executive	Single total figure of remuneration £'000	% of maximum incentive achieved	% of LTIP award vesting
2013/14 ¹	Andy Harrison	6,374	82.6	100.0
2012/13	Andy Harrison	3,432	74.9	89.8
2011/12	Andy Harrison	1,444	45.6	n/a
2010/11	Andy Harrison	534	94.4	n/a
	Alan Parker	2,509	94.4	82.4
	Combined	3,043	94.4	82.4
2009/10	Alan Parker	2,634	100.0	75.9

¹ The single total figure of remuneration for Andy Harrison in 2013/14 includes a one-off matching award, valued at £2.58 million. This award was given to Andy on his appointment.

Relative importance of spend on pay

The graph below compares the change in total expenditure on employee pay during the year to the changes in profit after tax and dividend payments.



Fees from external directorships

Christopher Rogers became a non-executive director of Travis Perkins Plc with effect from 1 September 2013 and retained a fee of £20,625 in respect of that directorship. None of the other executive directors received any fees from external directorships during the year.

Implementation of remuneration policy in 2014/15

Base salary

The base salaries of the executive directors with effect from 1 May 2014 will be as follows:

Director	Base salary at 1 May 2014 £'000	Base salary at 1 May 2013 £'000
Andy Harrison	750	734
Nicholas Cadbury	470	460
Patrick Dempsey	460	450
Christopher Rogers	528	516
Louise Smalley	330	300

Louise Smalley will receive a 10% salary increase to reflect her significant and growing contribution to the Company. The other executive directors will receive an increase of 2.25%, which is the same as the general increase being given to employees across the Group.

Benefits

The benefits received by each executive director will continue to include family private healthcare and a cash allowance in lieu of a company car.

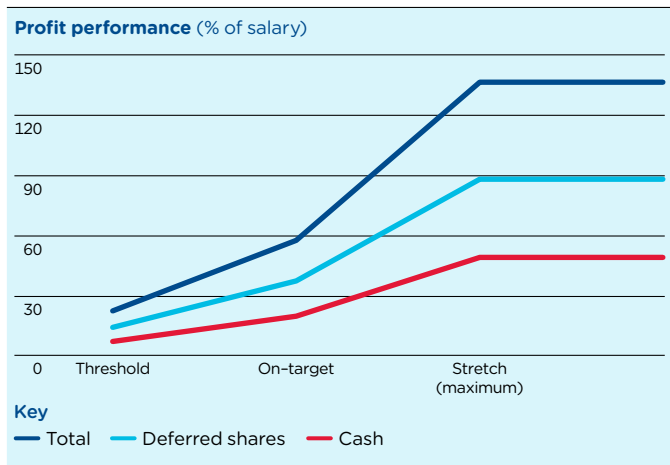
Annual Incentive Scheme

The Annual Incentive Scheme will continue to operate on the same terms as it did in 2013/14. Executive directors will be able to earn up to 137% of salary based on performance against a profit target and a further 30% of salary based on performance against WINcard targets.

The profit measures set for the executive directors for 2014/15 are appropriate to each director's role. Nicholas Cadbury, Andy Harrison and Louise Smalley have a Group underlying PBIT measure. Patrick Dempsey will have a profit measure split on a 40:60 basis between Group underlying PBIT and Whitbread Hotels & Restaurants underlying PBT, whilst Christopher Rogers will have a profit measure split on a 40:60 basis between Group underlying PBIT and Costa underlying PBT.

Annual report on remuneration continued

As explained on page 68, the profit targets are commercially sensitive and, for that reason, are not disclosed. The Committee will keep this disclosure under review.



Each executive director will be incentivised based on WINcard targets appropriate to the director's role. The targets include upweighted measures and standard measures. 80% of any awards made in relation to these WINcard measures are made in cash, with the remaining 20% being deferred equity. The WINcard targets and the percentage of salary payable based on each measure are outlined below:

WINcard measure	Andy Harrison Nicholas Cadbury Louise Smalley % of salary			Patrick Dempsey % of salary			Christopher Rogers % of salary		
Winning Teams									
Team turnover	9.0	4.5	0	7.5	3.75	0	9.0	4.5	0
Health and safety ¹	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Guest Heartbeat									
Family measures	n/a	n/a	n/a	3.0	1.5	0	n/a	n/a	n/a
Guest recommend	9.0	4.5	0	7.5	3.75	0	6.0	3.0	0
Profitable Growth									
Market performance	3.0	1.5	0	3.0	1.5	0	6.0	3.0	0
Brand growth	3.0	1.5	0	3.0	1.5	0	3.0	1.5	0
Like for like sales growth	3.0	1.5	0	3.0	1.5	0	3.0	1.5	0
Good Together									
Energy consumption	3.0	1.5	0	3.0	1.5	0	n/a	n/a	n/a
Wastage	n/a	n/a	n/a	n/a	n/a	n/a	3.0	1.5	0

¹ The health and safety measure is a hurdle. If the health and safety score is amber, payouts for the other WINcard measures will be reduced by 10% and if it is red they will be reduced by 20%.

Cash awards will be made in May 2015, with deferred equity issued in April 2015 and due to vest on 1 March 2018, with no further performance conditions applying.

Long Term Incentive Plan

The awards to be made in 2014 will be based on 125% of the director's base salary, calculated by reference to the average of closing price of a Whitbread share for the five business days preceding 1 March 2014 (i.e. 4,289.0p). The awards will be subject to strengthened performance conditions as shown in the matrix below. They will vest in April 2017, subject to the continued employment within the Group of the director and satisfaction of the performance conditions. The awards will be subject to a one-year holding period post vesting.

The matrix below shows how the performance conditions will operate.

		ROCE 2016/17							
		Threshold		Sliding Scale			Maximum		
		12%	13%	14%	15%	16%	17%	18%	
EPS growth above RPI per annum	<4%	0%	0%	0%	0%	0%	0%	0%	
	Threshold	4%	0%	19%	19%	20%	22%	24%	25%
	Sliding	6%	0%	37%	37%	40%	44%	47%	50%
	Scale	8%	0%	56%	56%	61%	66%	71%	75%
	Maximum	10%	0%	75%	75%	82%	89%	96%	100%

The number of shares awarded under the LTIP to each director will be as follows:

Director	Number of shares awarded	Value of award £'000
Andy Harrison	21,381	917
Nicholas Cadbury	13,406	575
Patrick Dempsey	13,114	563
Christopher Rogers	15,040	645
Louise Smalley	8,743	375

Pension

There will be no changes to the pension arrangements in 2014/15.

Statement of shareholder voting

At the Annual General Meeting in 2013 the advisory resolution to approve the remuneration report was passed, with 98.5% of votes received being in favour of the resolution. In total 110,583,636 votes were cast on the resolution, with 108,910,620 in favour and 1,673,016 against. There were 1,739,866 votes withheld. There were no questions raised by shareholders at the meeting relating to the Company's remuneration policy.



Directors' report

The directors present their Report and Accounts for the year ended 27 February 2014

Certain information required for disclosure in this report is provided in other appropriate sections of the Annual Report and Accounts. These include the corporate governance and remuneration reports and the Group financial statements and Notes to those financial statements and accordingly these are incorporated into the report by reference.

Results and dividends

Group profit before tax and exceptional items	£411.8 million
Group profit before tax and after exceptional items	£347.0 million
Interim dividend paid on 10 January 2014	21.80p per share
Recommended final dividend	47.00p per share
Total dividend for the year	68.80p per share

Subject to approval at the Annual General Meeting (AGM), the final dividend will be payable on 4 July 2014 to the shareholders on the register at the close of business on 30 May 2014.

Board of Directors

The directors at the date of this Report are listed on pages 46 and 47. All these directors served throughout the year. Susan Hooper resigned as a director of the Company with effect from 1 January 2014.

Details of the directors' service contracts are given in the remuneration report on page 63. None of the non-executive directors has a service contract.

Details of directors' training are given in the corporate governance report on page 50.

Powers of directors

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

Appointment and replacement of directors

Directors shall be no less than two and no more than 20 in number. Directors may be appointed by the Company, by ordinary resolution or by the Board of Directors.

In accordance with the UK Corporate Governance Code 2012 all directors will stand for annual re-election at each AGM.

The Company may, by special resolution, remove any directors before the expiration of his/her term of office.

Directors automatically stop being directors if:

- i. they give the Company a written notice of resignation (at the date such notice expires);
- ii. they give the Company a written notice in which they offer to resign and the other directors decide to accept the offer;
- iii. all of the other directors (who must comprise at least three people) pass a resolution or sign a written notice requiring the director to resign;
- iv. they are or have been suffering from mental or physical ill health and the directors pass a resolution removing the director from office;
- v. they have missed directors' meetings (whether or not an alternate director appointed attends those meetings) for a continuous period of six months without permission from the directors and the directors pass a resolution removing the director from office;
- vi. a bankruptcy order is made against them or they make any arrangement or composition with their creditors generally;
- vii. they are prohibited from being a director under any applicable legislation; or
- viii. they cease to be a director under any applicable legislation or are removed from office under the Company's Articles of Association.

Directors' indemnity

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

Compensation for loss of office

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

Directors' share interests

Details regarding the share interests of the directors in the share capital of the Company, including with respect to options to acquire ordinary shares, are set out in the remuneration report on pages 71 to 74.



Share capital

Details of the issued share capital can be found in Note 26 to the accounts.

Holders of ordinary shares are entitled to attend and speak at general meetings of the Company, to appoint one or more proxies and, if they are corporations, corporate representatives to attend general meetings and to exercise voting rights. Holders of ordinary shares may receive a dividend and on a liquidation may share in the assets of the Company. Holders of ordinary shares are entitled to receive the Company's Annual Report and Accounts. Subject to meeting certain thresholds, holders of ordinary shares may requisition a general meeting of the Company or the proposal of resolutions at AGMs.

Voting rights

On a show of hands at a general meeting of the Company, every holder of ordinary shares present, in person or by proxy and entitled to vote, has one vote (unless the proxy is appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution) and on a poll every member present in person or by proxy and entitled to vote has one vote for every ordinary share held. Voting rights for any ordinary shares held in treasury are suspended. None of the ordinary shares carry any special rights with regard to control of the Company. Electronic and paper proxy appointments and voting instructions must be received by the Company's registrars not later than (i) 48 hours before a meeting or adjourned meeting (excluding non-working days), or (ii) 24 hours before a poll is taken, if the poll is not taken on the same day as the meeting or adjourned meeting.

Unless the directors decide otherwise, a shareholder cannot attend or vote at any general meeting of the Company or at any separate general meeting of the holders of any class of shares in the Company or upon a poll or exercise any other right conferred by membership in relation to general meetings or polls if he or she has not paid all amounts relating to those shares which are due at the time of the meeting.

Where a shareholder with at least a 0.25% interest in a class of shares has been served with a disclosure notice in relation to a particular holding of shares and has failed to provide the Company with information concerning those shares, those shares will no longer give that shareholder any right to vote at a shareholders' meeting.

Restrictions on transfer of shares

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

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

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

B shares and C shares

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

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

Purchase of own shares

The Company is authorised to purchase its own shares in the market. Approval to renew this authority will be sought from the shareholders at the 2014 AGM.

The Company did not purchase any of its own shares during the year. 13.3 million shares (representing 6.85% of the total called up share capital at the beginning of the year) are held as treasury shares (28 February 2013: 13.8 million). During the course of the year, the Company transferred 453,000 shares from treasury to the Employee Share Ownership Trust for the future satisfaction of awards under the Company's incentive schemes.

Employee share schemes

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

Major interests

As at the end of the financial year, the Company had received formal notification, under the Disclosure and Transparency Rules, of the following material holdings in its shares (the percentages shown are the percentages at the time of the disclosure and have not been re-calculated based on the issued share capital at the year-end):

	Number of shares	% of issued share capital
BlackRock	17,184,930	9.73
Capital Group Companies, Inc.	10,646,212	5.87
Schroders PLC	10,531,421	5.35
Standard Life Investments	7,233,278	4.08

The Company was informed on 12 March 2014 that Capital Group Companies, Inc. had decreased its holding to 9,000,289 shares, being 4.96% of the issued share capital. No other changes to the above have been disclosed to the Company in accordance with rule 5 of the Disclosure and Transparency Rules between the end of the financial year and 28 April 2014.

Employment policies

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

The Company takes its responsibilities to the disabled seriously and seeks not to discriminate under any circumstances (including in relation to training, career development and promotion) against current or prospective employees because of any disability. Fair and full consideration is given to applications for employment made by disabled persons, having regard to their aptitudes and abilities. Employees who become disabled during their career at Whitbread will be retained in employment wherever possible and given help with rehabilitation and training.

Employee involvement

The importance of good relations and communications with employees is fundamental to the continued success of our business. Each of the Group's operating businesses maintains employee relations and consults employees as appropriate to its own particular needs. In addition, our employee opinion survey, 'Your Say', is conducted twice a year to provide insight into the views of employees.

Our employees are actively encouraged to take part in our Sharesave scheme, which is available to all employees and offers an option price discounted by 20%.

Regular internal communications are made to all employees to ensure that they are kept well informed of the performance of the Group and of financial and economic factors that may affect the Company's performance.

Further information on employee involvement can be found in the Winning Teams sections on pages 12 to 13 and 22 to 23.

Mandatory Greenhouse Gas ('GHG') reporting

In order to comply with the requirements of the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013 we have amended our environmental reporting accordingly.

We have considered the six main GHGs and report emissions in tonnes of CO₂ equivalent ('CO₂ e') for our Scope 1 (direct) and Scope 2 (indirect) CO₂ emissions. We have used the GHG Protocol Corporate Accounting and Reporting Standard methodology to calculate our emissions and DEFRA GHG Conversion Factors for Company Reporting.

Scope 1 relates to the direct emissions from the fuels we use in our hotels, restaurants, offices and coffee shops such as natural gas and liquid petroleum gas. It also includes emissions from owned vehicles (including company cars) but excludes logistics as this is an outsourced operation. We have reported our refrigerant gas and F-Gas emissions only in respect of our UK operations due to more limited reporting capabilities at other sites.

Scope 2 relates to the indirect emissions associated with the generation of the electricity consumed in our sites.

When defining the scope of our data we do not report on operations under joint venture agreements where we do not have operational control such as Costa Beijing and Premier Inn (UAE). For reasons of materiality, small, one person offices in the Far East have been excluded. All other sites throughout the world are included.

Where possible we have reported billed or Automatic Meter Reader data which represents 88% of our total global emissions. For those operations which are currently beyond our reporting capabilities, such as Costa Shanghai, we have used an estimation approach using known sales data and local conversion factors. For further information about our estimation techniques and the number and location of Whitbread sites please view the Corporate Responsibility pages on our website.

An intensity ratio of tonnes of CO₂ e per £1 million turnover has been selected, which will allow a comparison of our performance over time and with other similar types of organisation.

		2013/14 tonnes of CO ₂ e
	Source of emissions	
Direct emissions	Scope 1	
	Natural gas	53,857.84
	Fuel oil	400.00
	LPG	3,245.82
	F-Gas	7,572.61
	Owned transport	1,864.30
Indirect emissions	Scope 2	
	Electricity	187,733.39
Gross emissions		254,673.96
	Turnover (£m)	2,294.30
	Tonnes CO ₂ e per £1m turnover	111.00

Amendment of the Company's Articles of Association

Any amendments to the Articles of Association of the Company may be made in accordance with the provisions of the Companies Act 2006 by way of special resolution.

Significant agreements

The Company's facility agreements and the private placement loan notes agreement, details of which can be found in Note 20 to the accounts, contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the Company.

Contractual arrangements

The Group has contractual arrangements with numerous third-parties in support of its business activities, none of which are considered individually to be essential to its business and, accordingly, it has not been considered necessary for an understanding of the development, performance or position of the Group's business to disclose information about any of those third-parties.

Financial instruments

Information on the Company's use of financial instruments, financial risk management objectives and policies and exposure is given in Note 24 to the consolidated financial statements.

Political donations

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

Auditor

EY LLP have expressed their willingness to continue in office as auditor of the Company and a resolution proposing their reappointment will be put to shareholders at the 2014 AGM. After proper consideration, the Audit Committee is satisfied that the Company's auditor, EY LLP, continues to be objective and independent of the Company. In coming to this conclusion, the Audit Committee gave full consideration to any non-audit work carried out by EY LLP.

The Audit Committee has considered what work should not be carried out by the external auditor and has concluded that certain services will not be carried out by EY LLP, as outlined in the Committee's terms of reference.

Disclosure of information to auditor

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report on pages 6 to 43. The financial position of the Company, its cash flows, net debt and borrowing facilities and the maturity of those facilities are set out in the Finance Director's review on pages 38 to 41. In addition there are further details in the financial statements on the Group's financial risk management, objectives and policies (Note 23) and on financial instruments (Note 24).

A combination of the strong operating cash flows generated by the business and the significant headroom on its credit facilities supports the directors' view that the Group has sufficient funds available for it to meet its foreseeable working capital requirements. The directors have concluded that the going concern basis remains appropriate.

Annual General Meeting

The AGM will be held at 2pm on 17 June 2014 at Church House Conference Centre, Dean's Yard, Westminster, London SW1P 3NZ. The Notice of Meeting is enclosed with this report for shareholders receiving hard copy documents, and is available at www.whitbread.co.uk for those who elected to receive documents electronically. At the 2014 AGM, all voting will be by poll. Electronic handsets will be utilised and results will be displayed on the screen at the meeting.

Approved by the Board on 28 April 2014 and signed.

Simon Barratt

General Counsel and Company Secretary

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

Registered in England: No. 4120344

The directors' report that has been drawn up and presented in accordance with and in reliance upon applicable English company law and any liability of the directors in connection with this Report shall be subject to the limitations and restrictions provided by such law.

The Annual Report and Accounts contain certain statements about the future outlook for the Group. Although the Company believes that the expectations are based on reasonable assumptions, any statements about future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.



[Overview p1/5](#)

[Strategic report p6/43](#)

[Governance p44/81](#)

[Consolidated accounts 2013/14 p83/133](#)

[Company accounts 2013/14 p135/142](#)



Consolidated accounts 2013/14

- 84 Directors' responsibility statement
- 85 Independent auditor's report
- 88 Consolidated income statement
- 89 Consolidated statement
of comprehensive income
- 90 Consolidated statement
of changes in equity
- 91 Consolidated balance sheet
- 92 Consolidated cash flow statement
- 93 Notes to the consolidated
financial statements



Directors' responsibility statement

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the consolidated financial statements in accordance with applicable company law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law, the directors must not approve the consolidated financial statements unless they are satisfied that they present fairly the financial position of the Group and the results and cash flows of the Group for that period. In preparing those consolidated financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting policies, changes in accounting estimates and errors, and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the consolidated financial statements comply with IFRS subject to any material departures being disclosed and explained in the consolidated financial statements;
- prepare the consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in its business;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance.

The directors are responsible for keeping adequate accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the consolidated financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence, taking reasonable steps for the prevention and detection of fraud and other irregularities.

Responsibility statement

The directors are responsible for preparing the strategic report (including the Corporate Governance Report) and the directors' remuneration report in accordance with the Companies Act 2006 and applicable regulations, including the Listing Rules and the Disclosure and Transparency Rules.

The directors are responsible for the maintenance and integrity of the Annual Report included on the Group's website, in accordance with the UK legislation governing the preparation and dissemination of financial statements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose name and functions are disclosed on pages 46 and 47, confirms that, to the best of their knowledge:

- the consolidated financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and result of the Group; and
- the strategic report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The directors are responsible for preparing the Annual Report in accordance with applicable law and regulations. Having taken advice from the Audit Committee, the Board considers the Report and consolidated financial statements, taken as a whole, to be fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board,

Andy Harrison
Chief Executive

Nicholas Cadbury
Finance Director



Independent auditor's report to the members of Whitbread PLC

Independent auditor's report to the members of Whitbread PLC

We have audited the consolidated financial statements of Whitbread PLC for the year ended 27 February 2014 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated statement of cash flows and the related Notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this Report, or for the opinions we have formed.

Respective responsibilities of directors and of auditor

As explained more fully in the directors' responsibility statement set out on page 84, the directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the consolidated financial statements sufficient to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the consolidated financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited consolidated financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the consolidated financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 27 February 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Our assessment of risks of material misstatement

We identified the following risks of material misstatement which had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team:

- the accounting for current and deferred taxation balances and assessment of uncertain taxation positions;
- revenue recognition – including the treatment of franchise revenue;
- the accounting for the defined benefit pension scheme; and
- the risk of management override of internal control.

Our application of materiality

Materiality is a key part of planning and executing our audit strategy. For the purposes of determining whether the financial statements are free from material misstatement, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. As we develop our audit strategy, we determine materiality at the overall consolidated financial statement level and at the individual account level. Performance materiality is the application of materiality at the individual account level.

Planning the audit solely to detect individually material misstatements, overlooks the fact that the aggregate of individually immaterial misstatements may cause the consolidated financial statements to be materially misstated, and leaves no margin for possible undetected misstatements. Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the consolidated financial statements as a whole.

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the consolidated financial statements as a whole. We determined materiality for the Group to be £18.0 million (2012/13: £17.7 million), which is approximately 5% (2012/13: 5%) of pre-tax profit. This provided the basis for determining the nature, timing and extent of our audit procedures, and identifying and assessing the risk of material misstatement.



Independent auditor's report to the members of Whitbread PLC continued

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group should be 75% (2012/13: 75%) of planning materiality, namely £13.5 million (2012/13: £13.3 million). Our objective in adopting this approach was to ensure that the total detected and undetected audit differences did not exceed our planning materiality of £18.0 million for the consolidated financial statements as a whole.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.9 million (2012/13: £0.9 million), as well as differences below that threshold that, in our view warranted reporting on qualitative grounds.

An overview of the scope of our audit

In assessing the risk of material misstatement to the consolidated financial statements, our Group audit scope focused on the two operating segment locations in the UK, which were subject to full scope audits for the year ended 27 February 2014. The audit of these two locations was performed at a materiality level calculated by reference to a proportion of Group materiality appropriate to the relevant scale of the individual business unit. Together with the Group functions, which were also subject to a full scope audit, these locations represent the principal business units of the Group and account for 97% of the Group's total assets, 96% of the Group's revenue and 96% of the Group's operating profit.

The Senior statutory auditor visited both of the full scope operating segment locations during the year and for each segment the Group audit team remained in continuous contact with component teams and reviewed the work on key audit areas.

Our response to the risks of material misstatement identified above included the following procedures.

The accounting for current and deferred taxation balances and assessment of uncertain taxation positions

- We challenged management's calculation of current and deferred taxation liabilities and assessed the reasonableness of assumptions used by management in determining these estimates, particularly with respect to the deferred tax liabilities related to property, plant and equipment.
- We agreed a sample of amounts within management's taxation calculations to those submitted within taxation returns and/or correspondence with HM Revenue and Customs.
- We critically evaluated the positions adopted by management in relation to uncertain taxation positions.
- We assessed whether specific taxation issues were treated correctly in accordance with tax law and practice.
- We ensured that the consolidated financial statement disclosures were in accordance with accounting standards.

Revenue recognition — including the treatment of franchise revenue

- We tested a sample of franchise revenue transactions to identify anomalous entries potentially impacting Group revenue.
- We carried out testing relating to controls over revenue recognition, including the timing of revenue recognition.
- We performed analytical procedures, cut-off testing around the year-end and journal testing around revenue.
- We ensured that the consolidated financial statement disclosures were in accordance with accounting standards.

The accounting for the defined benefit pension scheme

- We challenged the assumptions used in the pension liability valuations and we used a pensions specialist to assist us with this procedure.
- We understood and challenged management's input into the assumptions underpinning the determination of the liability.
- We tested a sample of the pension asset valuations to ensure they had been reasonably calculated.
- We ensured that the consolidated financial statement disclosures were in accordance with accounting standards.

The risk of management override of internal control

- We performed tailored procedures, sufficient to address the identified risk in respect of subjective areas which were considered to be most susceptible to management override.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and the directors' report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited consolidated financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.



Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 80, in relation to going concern; and
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Other matter

We have reported separately on the parent Company financial statements of Whitbread PLC for the year ended 27 February 2014 and on the information in the directors' remuneration report that is described as having been audited.

Richard Wilson

(Senior statutory auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
London

28 April 2014



Consolidated income statement

Year ended 27 February 2014

	Notes	Year to 27 February 2014 £m	Year to 28 February 2013* £m
Revenue	3, 4	2,294.3	2,030.0
Operating costs	5	(1,905.3)	(1,647.2)
Operating profit		389.0	382.8
Share of profit from joint ventures	15	1.6	0.5
Share of profit from associate	16	0.9	0.8
Operating profit of the Group, joint ventures and associate		391.5	384.1
Finance costs	8	(45.2)	(52.5)
Finance revenue	8	0.7	11.6
Profit before tax	4	347.0	343.2
Analysed as:			
Underlying profit before tax	4	411.8	353.4
Amortisation of acquired intangible assets	6	(2.7)	(2.8)
IAS 19 income statement charge for pension finance cost	6	(23.6)	(27.0)
Profit before tax and exceptional items	4	385.5	323.6
Exceptional items	6	(38.5)	19.6
Profit before tax		347.0	343.2
Underlying tax expense	9	(94.1)	(90.8)
Exceptional tax and tax on non GAAP adjustments	6	70.5	39.7
Tax expense	9	(23.6)	(51.1)
Profit for the year		323.4	292.1
Attributable to:			
Parent shareholders		327.9	294.3
Non-controlling interest		(4.5)	(2.2)
		323.4	292.1

*Restated for the impact of IAS 19 (revised 2011), see Note 2.

Earnings per share

(Note 10)

	Year to 27 February 2014 pence	Year to 28 February 2013* pence
Earnings per share		
Basic	182.98	165.71
Diluted	181.06	164.32
Earnings per share before exceptional items		
Basic	167.74	136.37
Diluted	165.99	135.23
Underlying earnings per share		
Basic	179.02	149.10
Diluted	177.14	147.85

*Restated for the impact of IAS 19 (revised 2011), see Note 2.



Consolidated statement of comprehensive income

Year ended 27 February 2014

	Notes	Year to 27 February 2014 £m	Year to 28 February 2013* £m
Profit for the year		323.4	292.1
Items that will not be reclassified to the income statement:			
Re-measurement (loss)/gain on defined benefit pension scheme	30	(37.7)	41.4
Current tax on pensions	9	14.4	9.0
Deferred tax on pensions	9	(5.7)	(19.0)
Deferred tax: change in rate of corporation tax on pensions	9	(11.8)	(8.5)
		(40.8)	22.9
Items that may be reclassified subsequently to the income statement:			
Net gain on cash flow hedges	24	1.4	8.3
Deferred tax on cash flow hedges	9	(0.3)	(2.0)
Deferred tax: change in rate of corporation tax on cash flow hedges	9	(0.5)	(0.5)
		0.6	5.8
Exchange differences on translation of foreign operations		(7.8)	1.0
Other comprehensive (loss)/income for the year, net of tax		(48.0)	29.7
Total comprehensive income for the year, net of tax		275.4	321.8
Attributable to:			
Parent shareholders		279.9	324.0
Non-controlling interest		(4.5)	(2.2)
		275.4	321.8

*Restated for the impact of IAS 19 (revised 2011), see Note 2.



Consolidated statement of changes in equity

Year ended 27 February 2014

	Share capital (Note 26) £m	Share premium (Note 27) £m	Capital redemption reserve (Note 27) £m	Retained earnings (Note 27) £m	Currency translation reserve (Note 27) £m	Treasury reserve (Note 27) £m	Merger reserve (Note 27) £m	Hedging reserve (Note 27) £m	Total £m	Non-controlling interest £m	Total equity £m
At 1 March 2012	147.5	53.7	12.3	3,163.0	3.7	(220.3)	(1,855.0)	(28.1)	1,276.8	6.4	1,283.2
Profit for the year*	—	—	—	294.3	—	—	—	—	294.3	(2.2)	292.1
Other comprehensive income*	—	—	—	20.4	1.0	—	—	8.3	29.7	—	29.7
Total comprehensive income	—	—	—	314.7	1.0	—	—	8.3	324.0	(2.2)	321.8
Ordinary shares issued	0.2	2.0	—	—	—	—	—	—	2.2	—	2.2
Cost of ESOT shares purchased	—	—	—	—	—	(3.2)	—	—	(3.2)	—	(3.2)
Loss on ESOT shares issued	—	—	—	(3.6)	—	3.6	—	—	—	—	—
Accrued share-based payments	—	—	—	9.2	—	—	—	—	9.2	—	9.2
Tax on share-based payments	—	—	—	2.2	—	—	—	—	2.2	—	2.2
Tax rate change on historical revaluation	—	—	—	1.1	—	—	—	—	1.1	—	1.1
Equity dividends	—	—	—	(94.5)	—	—	—	—	(94.5)	—	(94.5)
Scrip dividends	0.6	(0.6)	—	16.7	—	—	—	—	16.7	—	16.7
Additions	—	—	—	—	—	—	—	—	—	6.6	6.6
At 28 February 2013	148.3	55.1	12.3	3,408.8	4.7	(219.9)	(1,855.0)	(19.8)	1,534.5	10.8	1,545.3
Profit for the year	—	—	—	327.9	—	—	—	—	327.9	(4.5)	323.4
Other comprehensive loss	—	—	—	(41.6)	(7.8)	—	—	1.4	(48.0)	—	(48.0)
Total comprehensive income	—	—	—	286.3	(7.8)	—	—	1.4	279.9	(4.5)	275.4
Ordinary shares issued	0.2	2.2	—	—	—	—	—	—	2.4	—	2.4
Loss on ESOT shares issued	—	—	—	(7.3)	—	7.3	—	—	—	—	—
Accrued share-based payments	—	—	—	10.6	—	—	—	—	10.6	—	10.6
Tax on share-based payments	—	—	—	6.6	—	—	—	—	6.6	—	6.6
Tax rate change on historical revaluation	—	—	—	1.9	—	—	—	—	1.9	—	1.9
Equity dividends	—	—	—	(106.9)	—	—	—	—	(106.9)	—	(106.9)
Scrip dividends	1.1	(1.1)	—	44.5	—	—	—	—	44.5	—	44.5
Additions	—	—	—	—	—	—	—	—	—	3.2	3.2
At 27 February 2014	149.6	56.2	12.3	3,644.5	(3.1)	(212.6)	(1,855.0)	(18.4)	1,773.5	9.5	1,783.0

*Restated for the impact of IAS 19 (revised 2011), see Note 2.



Consolidated balance sheet

At 27 February 2014

	Notes	27 February 2014 £m	28 February 2013 £m
ASSETS			
Non-current assets			
Intangible assets	12	223.0	215.4
Property, plant and equipment	13	2,894.1	2,748.9
Investment in joint ventures	15	24.9	24.0
Investment in associate	16	2.0	1.7
Derivative financial instruments	24	—	7.1
Trade and other receivables	18	6.0	5.3
		3,150.0	3,002.4
Current assets			
Inventories	17	30.5	26.5
Derivative financial instruments	24	—	1.4
Trade and other receivables	18	124.1	102.1
Cash and cash equivalents	19	41.4	40.8
		196.0	170.8
Assets held for sale	13	1.5	1.5
Total assets		3,347.5	3,174.7
LIABILITIES			
Current liabilities			
Financial liabilities	20	—	9.0
Provisions	22	12.9	10.3
Derivative financial instruments	24	4.3	4.6
Income tax liabilities	9	35.1	37.7
Trade and other payables	25	423.0	347.6
		475.3	409.2
Non-current liabilities			
Financial liabilities	20	433.0	502.9
Provisions	22	32.7	32.6
Derivative financial instruments	24	24.7	18.7
Deferred income tax liabilities	9	46.8	106.7
Pension liability	30	534.3	541.7
Trade and other payables	25	17.7	17.6
		1,089.2	1,220.2
Total liabilities		1,564.5	1,629.4
Net assets		1,783.0	1,545.3
EQUITY			
Share capital	26	149.6	148.3
Share premium	27	56.2	55.1
Capital redemption reserve	27	12.3	12.3
Retained earnings	27	3,644.5	3,408.8
Currency translation reserve	27	(3.1)	4.7
Other reserves	27	(2,086.0)	(2,094.7)
Equity attributable to equity holders of the parent		1,773.5	1,534.5
Non-controlling interest		9.5	10.8
Total equity		1,783.0	1,545.3

Andy Harrison
Chief Executive

Nicholas Cadbury
Finance Director

28 April 2014



Consolidated cash flow statement

Year ended 27 February 2014

	Notes	Year to 27 February 2014 £m	Year to 28 February 2013* £m
Profit for the year		323.4	292.1
Adjustments for:			
Taxation charged on total operations	9	23.6	51.1
Net finance cost	8	44.5	40.9
Total income from joint ventures	15	(1.6)	(0.5)
Total income from associate	16	(0.9)	(0.8)
Loss/(gain) on disposal of property, plant and equipment and property reversions	6	11.7	(18.6)
Loss on investment and disposal of business	6	—	3.3
Depreciation and amortisation	12, 13	152.5	128.4
Impairment of property, plant and equipment and intangibles	12, 13	20.2	5.4
Share-based payments	29	10.6	9.2
Other non-cash items		7.0	4.1
Cash generated from operations before working capital changes		591.0	514.6
Increase in inventories		(4.2)	(3.3)
Increase in trade and other receivables		(25.5)	(17.4)
Increase in trade and other payables		45.1	38.4
Payments against provisions	22	(5.1)	(6.3)
Pension payments	30	(71.2)	(45.7)
Cash generated from operations		530.1	480.3
Interest paid		(19.8)	(26.6)
Corporation taxes paid		(81.4)	(46.7)
Net cash flows from operating activities		428.9	407.0
Cash flows from investing activities			
Purchase of property, plant and equipment		(286.3)	(329.3)
Purchase of intangible assets		(19.9)	(14.3)
Proceeds from disposal of property, plant and equipment		1.0	51.0
Business combinations, net of cash acquired		—	(0.7)
Sale of business		—	(0.2)
Capital contributions and loans to joint ventures		(1.6)	(4.8)
Dividends from associate		0.7	0.7
Interest received		0.7	0.4
Net cash flows from investing activities		(305.4)	(297.2)
Cash flows from financing activities			
Proceeds from issue of share capital		2.4	2.2
Cost of purchasing ESOT shares		—	(3.2)
Capital contributions from non-controlling interests		4.0	5.9
Decrease in short-term borrowings		(9.0)	(4.5)
Repayments of long-term borrowings		(54.9)	(32.0)
Renegotiation costs of long-term borrowings		(1.7)	—
Dividends paid	11	(62.4)	(77.8)
Net cash flows from financing activities		(121.6)	(109.4)
Net increase in cash and cash equivalents		1.9	0.4
Opening cash and cash equivalents		40.8	39.6
Foreign exchange differences		(1.3)	0.8
Closing cash and cash equivalents shown within current assets on the balance sheet	19	41.4	40.8

*Restated for the impact of IAS 19 (revised 2011), see Note 2.

Notes to the consolidated financial statements

At 27 February 2014

1 Authorisation of consolidated financial statements

The consolidated financial statements of Whitbread PLC for the year ended 27 February 2014, were authorised for issue by the Board of Directors on 28 April 2014. Whitbread PLC is a public limited company incorporated and fully domiciled in England and Wales. The Company's ordinary shares are traded on the London Stock Exchange.

The significant activities of the Group are described in Note 4, Segment information.

2 Accounting policies

Basis of accounting and preparation

The consolidated financial statements of Whitbread PLC and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the European Union and as applied in accordance with the provisions of the Companies Act 2006.

The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest hundred thousand except when otherwise indicated. The significant accounting policies adopted are set out below.

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the consolidated financial statements for the year ended 28 February 2013, except as follows:

IAS 19 Employee Benefits (Amendment)

IAS 19 (revised 2011) has been applied retrospectively from 2 March 2012 and comparatives have been restated for the impact of its adoption. The standard replaces interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net pension liability. In addition, certain administration costs in relation to the scheme, which were previously recognised as a reduction to the expected return on assets, are now recognised as an operating expense.

The impact of the adoption of IAS 19 (revised 2011) on the consolidated income statement, consolidated statement of comprehensive income and the calculation of earnings per share for each year was as follows:

	2013/14 £m	2012/13 £m
Impact on the consolidated income statement		
Operating costs	2.5	3.1
Net financing costs	14.8	9.0
Net decrease in profit before tax	17.3	12.1
Analysed as:		
Decrease in underlying profit before tax	2.5	3.1
IAS 19 income statement charge for pension finance cost	14.8	9.0
Decrease in profit before tax	17.3	12.1
Underlying tax expense	(0.6)	(0.7)
Exceptional tax and tax on non GAAP adjustments	(3.4)	(2.2)
Decrease in tax expense	(4.0)	(2.9)
Net decrease in profit for the year	13.3	9.2
Impact on the consolidated statement of comprehensive income		
Decrease in profit for the year	(13.3)	(9.2)
Re-measurement gain on defined benefit pension scheme	17.3	12.1
Deferred tax on pensions	(4.0)	(2.9)
Increase in other comprehensive income for the year, net of tax	13.3	9.2
Net movement in total comprehensive income	—	—



Notes to the consolidated financial statements

At 27 February 2014

2 Accounting policies continued

Impact on earnings per share (EPS)	2013/14 pence	2012/13 pence
Basic on profit for the year	7.42	5.18
Exceptional items – gross	–	–
Exceptional items – taxation	–	–
Exceptional items – non-controlling interest	–	–
Basic on profit before exceptional items for the year	7.42	5.18
Non GAAP adjustments – gross	(8.26)	(5.07)
Non GAAP adjustments – taxation	1.90	1.24
Basic on underlying profit for the year	1.06	1.35
Diluted on profit for the year	7.34	5.14
Diluted on profit before exceptional items for the year	7.34	5.14
Diluted on underlying profit for the year	1.05	1.34

In addition, the above decreases to profit and increases to other comprehensive income, have impacted the consolidated statement of changes in equity and the reconciliation of operating profit to cash generated from operating activities (see consolidated cash flow statement) for both financial years. There were no impacts on the consolidated balance sheet.

IFRS 13 Fair Value Measurement

The standard establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. Application of IFRS 13 has not materially impacted the fair value measurements in the consolidated financial statements of the Group.

In addition to the above, the Group has adopted the following standards and interpretations which have been assessed as having no financial impact or disclosure requirements at this time:

- IAS 1 Presentation of items of Other Comprehensive Income;
- IFRS 7 Offsetting financial assets and liabilities; and
- The IASB's annual improvement process, 2009–2011.

Basis of consolidation

The consolidated financial statements incorporate the accounts of Whitbread PLC and all its subsidiaries, together with the Group's share of the net assets and results of joint ventures and associates incorporated using the equity method of accounting. These are adjusted, where appropriate, to conform to Group accounting policies. The financial statements of material subsidiaries are prepared for the same reporting year as the parent Company.

Apart from the acquisition of Whitbread Group PLC by Whitbread PLC in 2000/01, which was accounted for using merger accounting, acquisitions by the Group are accounted for under the acquisition method and any goodwill arising is capitalised as an intangible asset. The results of subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from, or up to, the date that control passes respectively. All intra-Group transactions, balances, income and expenses are eliminated on consolidation. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred.

Significant accounting policies

Goodwill

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



2 Accounting policies continued

Intangible assets

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

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

Amortisation is calculated on a straight-line basis over the estimated life of the asset as follows:

- trading licences have an infinite life;
- brand assets are amortised over 15 years;
- IT software and technology is amortised over periods of three to ten years;
- the asset in relation to acquired customer relationships is amortised over 15 years; and
- operating rights agreements are amortised over the life of the contract.

The carrying values are reviewed for impairment if events or changes in circumstances indicate that they may not be recoverable.

Property, plant and equipment

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

- freehold land is not depreciated;
- freehold and long leasehold buildings are depreciated to their estimated residual values over periods up to 50 years; and
- plant and equipment is depreciated over three to 30 years.

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

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

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

Impairment

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

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

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

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its estimated recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of other assets in the CGU, on a pro-rata basis.

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



Notes to the consolidated financial statements

At 27 February 2014

2 Accounting policies continued

Goodwill and intangibles

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

Property, plant and equipment

For the purposes of the impairment review of property, plant and equipment, the Group considers each trading outlet to be a separate CGU.

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

Consideration is also given, where appropriate, to the market value of the asset, either from independent sources, or in conjunction with, an accepted industry valuation methodology.

Investments in joint ventures and associates

The Group assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication of impairment exists, the carrying amount of the investment is compared with its recoverable amount, being the higher of its fair value less costs to sell and value in use. Where the carrying amount exceeds the recoverable amount, the investment is written down to its recoverable amount.

Assets held for sale

Non-current assets and disposal groups are classified as held for sale only if available for immediate sale in their present condition and a sale is highly probable and expected to be completed within one year from the date of classification. Such assets are measured at the lower of carrying amount and fair value less costs to sell and are not depreciated or amortised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the basis of first in, first out and net realisable value is the estimated selling price less any costs of disposal.

Provisions

Provisions for warranties, onerous contracts and restructuring costs are recognised: when the Group has a present legal or constructive obligation as a result of a past event; when it is probable that an outflow of resources will be required to settle the obligation; and when a reliable estimate can be made of the amount of the obligation.

Provisions are discounted to present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amortisation of the discount is recognised as a finance cost.

Non GAAP performance measure

The face of the income statement presents underlying profit before tax and reconciles this to profit before tax as required to be presented under the applicable accounting standards. Underlying earnings per share is calculated having adjusted profit after tax on the same basis. The term underlying profit is not defined under IFRSs and may not be comparable with similarly titled profit measures reported by other companies. It is not intended to be a substitute for, or superior to, GAAP measurements of profit. The adjustments made to reported profit in the income statement, in order to present an underlying performance measure, include:

Exceptional items

The Group includes in the non GAAP performance measure those items which are exceptional by virtue of their size or incidence so as to allow a better understanding of the underlying trading performance of the Group. The Group also includes the profit or loss on disposal of property, plant and equipment, property reversions, profit or loss on the sale of a business, impairment and exceptional interest and tax;

IAS 19 income statement finance charge/credit for defined benefit pension scheme

Underlying profit excludes the finance cost/revenue element of IAS 19;

Amortisation charge on acquired intangible assets

Underlying profit excludes the amortisation charge on acquired intangible assets; and

Taxation

The tax impact of the above items is also excluded in arriving at underlying earnings.



2 Accounting policies continued

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange quoted at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency, are translated using the exchange rates as at the dates of the initial transactions.

Trading results are translated into the functional currency (generally sterling) at average rates of exchange for the year. Day-to-day transactions in a foreign currency are recorded in the functional currency at an average rate for the month in which those transactions take place, which is used as a reasonable approximation to the actual transaction rate. Translation differences on monetary items are taken to the income statement. The differences that arise from translating the results of foreign entities at average rates of exchange, and their assets and liabilities at closing rates, are also dealt with in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement. All other currency gains and losses are dealt with in the income statement.

A number of subsidiaries within the Group have a non-sterling functional currency. The financial performance and end position of these entities are translated into sterling in the consolidated financial statements. Balance sheet items are translated at the rate applicable at the balance sheet date. Transactions reported in the income statement are translated using an average rate for the month in which they occur.

Revenue recognition

Revenue is recognised when the significant risks and rewards of the goods or services provided have transferred to the buyer, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group.

Revenue is measured at the fair value of the consideration receivable from the sale of goods and services to third-parties after deducting discounts, allowances for customer loyalty and other promotional activities. Revenue includes duties which the Group pays as principal, but excludes amounts collected on behalf of other parties, such as value added tax. All sales between Group businesses are eliminated on consolidation.

Revenue of the Group comprises the following streams:

Sale of goods

Revenue from the sale of food, beverages and merchandise is recognised at the point of sale, with the exception of wholesale transactions which are recognised on delivery;

Rendering of services

Revenue from room sales and other guest services is recognised when rooms are occupied and as services are provided;

Franchise fees

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

Customer loyalty programmes

Where award credits are granted as part of a sales transaction, a portion of revenue equal to the fair value of the reward points earned is deferred until redemption. The fair value of points awarded is determined with reference to the discount received upon redemption and the level of redemption; and

Finance revenue

Interest income is recognised as the interest accrues, using the effective interest method.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental payments in respect of operating leases are charged against operating profit on a straight-line basis over the period of the lease. Lease incentives are recognised as a reduction of rental costs over the lease term.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except for gross interest costs incurred on the financing of major projects, which are capitalised until the time that the projects are available for use.

Retirement benefits

In respect of defined benefit pension schemes, the obligation recognised in the balance sheet represents the present value of the defined benefit obligation, reduced by the fair value of the scheme assets. The cost of providing benefits is determined using the projected unit credit actuarial valuation method. Re-measurements are recognised in full in the period in which they occur in the statement of comprehensive income and are not classified to the income statement in subsequent periods.

For defined benefit plans, the employer's portion of the past and current service cost is charged to operating profit, with net interest costs reported within finance costs. In addition, all administration costs, other than those relating to the management of plan assets or taxes payable by the plan itself, are charged as incurred to operating costs in the income statement. Net interest is calculated by applying the opening discount rate to the opening net defined benefit obligation taking into account the expected contributions and benefits paid.

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

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

Notes to the consolidated financial statements

At 27 February 2014

2 Accounting policies continued

Share-based payment transactions

Equity-settled transactions

Certain employees and directors of the Group receive equity-settled remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares. The cost of equity-settled transactions with employees is measured by reference to the fair value, determined using a stochastic model, at the date at which they are granted. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions or non-vesting conditions are fulfilled, ending on the relevant vesting date. Except for awards subject to market-related conditions for vesting, the cumulative expense recognised for equity-settled transactions, at each reporting date until the vesting date, reflects the extent to which the vesting period has expired, and is adjusted to reflect the directors best available estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. If options are subject to market-related conditions, awards are not cumulatively adjusted for the likelihood of these targets being met. Instead these conditions are included in the fair value of the awards.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. Where an equity-settled award is forfeited, the related expense recognised to date is reversed.

Cash-settled transactions

The cost is fair-valued at grant date and expensed over the period until the vesting date, with a recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date, up to and including the settlement date, with changes in fair value recognised in the income statement for the period.

Tax

The income tax charge represents both the income tax payable, based on profit for the year and deferred income tax.

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

Deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all, or part of, the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are charged or credited directly to equity. Otherwise, income tax is recognised in the income statement.

Treasury shares

Own equity instruments which are held by the Group (treasury shares) are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Investments in joint ventures and associates

Joint ventures are established through an interest in a company (a jointly-controlled entity).

Investments in joint ventures and associates are initially recognised at cost, being the fair value of the consideration given, including acquisition charges associated with the investment.

After initial recognition, investments in joint ventures and associates are accounted for using the equity method.

Recognition and derecognition of financial assets and liabilities

The recognition of financial assets and liabilities occurs when the Group becomes party to the contractual provisions of the instrument. The derecognition of financial assets takes place when the Group no longer has the right to cash flows, the risks and rewards of ownership, or control of the asset. The derecognition of financial liabilities occurs when the obligation under the liability is discharged, cancelled or expires.

Financial assets

Financial assets at fair value through profit or loss

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

2 Accounting policies continued

Loans and receivables

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

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

Cash and cash equivalents

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

Derivative financial instruments

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

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

The fair value of derivative instruments is calculated by discounting all future cash flows by the applicable market yield curves at the balance sheet date.

The portion of any gains or losses on cash flow hedges which meet the conditions for hedge accounting and are determined to be effective, is recognised directly in the statement of comprehensive income. The gains or losses relating to the ineffective portion are recognised immediately in the income statement.

The change in fair value, of derivatives designated as part of a fair value hedge, is recognised in the income statement in finance costs. The change in the fair value of the hedged asset or liability, that is attributable to the hedged risk, is also recognised in the income statement within finance costs.

When a firm commitment that is hedged becomes an asset or a liability recognised on the balance sheet then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the transaction that results from a firm commitment that is hedged affects the income statement.

Gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting, are recognised immediately in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that point in time, for cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement. When a fair value hedge item is derecognised, the unamortised fair value is recognised immediately in the income statement.

Borrowings

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

Significant accounting judgements and estimates

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

The main assumptions and sources of estimation uncertainty are outlined below:

- an impairment test of tangible and intangible assets is undertaken each year on both an EBITDA multiple approach and a discounted cash flow approach. Note 14 describes the assumptions used together with an analysis of the sensitivity to changes in key assumptions;
- judgement involving estimates is used in determining the value of provisions carried for onerous contracts. This is primarily based around assumptions on rent and property-related costs for the period the property is vacant and then assumptions over future rental incomes or potential reverse lease premiums paid. Note 22 provides details of the value of the provisions carried;



Notes to the consolidated financial statements

At 27 February 2014

2 Accounting policies continued

- defined benefit pension plans are accounted for in accordance with actuarial advice using the projected unit credit method. Note 30 describes the assumptions used together with an analysis of the sensitivity to changes in key assumptions; and
- the calculation of the Group's total tax charge necessarily involves a degree of estimation and judgement in respect of certain items, where the tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority. The final resolution of some of these items may give rise to material income statement and/or cash flow variances.

Corporation tax is calculated on the basis of income before taxation, taking into account the relevant local tax rates and regulations. For each operating entity, the current income tax expense is calculated and differences between the accounting and tax base are determined, resulting in deferred tax assets or liabilities.

Assumptions are also made around the assets which qualify for capital allowances and the level of disallowable expenses and this affects the income tax calculation. Provisions may be made for uncertain exposures or recoveries, which can have an impact on both deferred and current tax. Assumptions are also made around the tax net book value of assets to which capital allowances apply, the level of capital allowances, the extent of rollover gains, indexation thereon and the tax base into which they have been rolled.

A deferred tax asset shall be recognised for the carry forward of unused tax losses, pension deficits and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Detailed amounts of the carrying value of corporation and deferred tax can be found in Note 9.

Standards issued by the International Accounting Standards Board (IASB) not effective for the current year and not early adopted by the Group

The following standards and interpretations, which have been issued by the IASB and are relevant for the Group, subject to EU ratification, become effective after the current year-end and have not been early adopted by the Group:

Amendments to IAS 36: Recoverable Amount Disclosures for Non-Financial Assets

This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal and is effective for annual periods beginning on or after 1 January 2014. The impact on the Group is on disclosure in the consolidated financial statements only;

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was first issued in November 2009 and has since been amended several times. The standard will eventually replace IAS 39 and covers the classification, measurement and derecognition of financial assets and financial liabilities, together with a new hedge accounting model. The IASB intends to expand IFRS 9 to add new requirements for impairment and for it to become a complete replacement of IAS 39 for periods beginning on or after 1 January 2018. The adoption of the first phase of IFRS 9 will have an effect on classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued; and

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests, where they are material, in subsidiaries, joint arrangements, associates and structured entities. The impact on the Group is on disclosure in the consolidated financial statements only, where summarised information may need to be provided. The standard becomes effective for annual periods beginning on or after 1 January 2014¹.

Whilst the following standards and interpretations are relevant to the Group, they have been assessed as having no financial impact or additional disclosure requirements at this time¹:

- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011);
- IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32;
- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39;
- IFRIC Interpretation 21 Levies (IFRIC 21);
- IFRS 10 Consolidated Financial Statements; and
- IFRS 11 Joint Arrangements.

¹ As the consolidated financial statements have been prepared in accordance with IFRSs as adopted by the European Union, the adoption date is as per the EU, not the IASB.



3 Revenue

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

	2013/14 £m	2012/13 £m
Rendering of services	967.9	853.8
Franchise fees	25.6	22.2
Sale of goods	1,300.8	1,154.0
Revenue	2,294.3	2,030.0

4 Segment information

For management purposes, the Group is organised into two strategic business units (Hotels & Restaurants and Costa) based upon their different products and services:

- Hotels & Restaurants provide services in relation to accommodation and food; and
- Costa generates income from the operation of its branded, owned and franchised coffee outlets.

The UK and International Hotels & Restaurants segments have been aggregated on the grounds that the International segment is immaterial.

Management monitors the operating results of its strategic business units separately for the purpose of making decisions about allocating resources and assessing performance. Segment performance is measured based on underlying operating profit. Included within the unallocated and elimination columns in the tables below are the costs of running the public company. The unallocated assets and liabilities are cash and debt balances (held and controlled by the central treasury function), taxation, pensions, certain property, plant and equipment, centrally held provisions and central working capital balances.

Inter-segment revenue is from Costa to the Hotels & Restaurants segment and is eliminated on consolidation. Transactions were entered into on an arm's length basis in a manner similar to transactions with third-parties.



Notes to the consolidated financial statements

At 27 February 2014

4 Segment information continued

The following tables present revenue and profit information and certain asset and liability information regarding business operating segments for the years ended 27 February 2014 and 28 February 2013.

	Hotels & Restaurants £m	Costa £m	Unallocated and elimination £m	Total operations £m
Year ended 27 February 2014				
Revenue				
Underlying revenue from external customers	1,494.0	804.9	—	2,298.9
Inter-segment revenue	—	2.8	(2.8)	—
Exceptional revenue	(4.6)	—	—	(4.6)
Total revenue	1,489.4	807.7	(2.8)	2,294.3
Underlying operating profit before exceptional items				
Underlying interest	—	—	(18.9)	(18.9)
Underlying profit before tax				
Amortisation of acquired intangibles	—	(2.7)	—	(2.7)
IAS 19 income statement charge for pension finance cost	—	—	(23.6)	(23.6)
Profit before tax and exceptional items	348.1	107.1	(69.7)	385.5
Exceptional items:				
VAT on gaming machine income	(4.6)	—	—	(4.6)
Net loss on disposal of property, plant and equipment and property reversions	(1.2)	(3.7)	(6.8)	(11.7)
Impairment	(15.5)	(10.6)	—	(26.1)
Impairment reversal	5.4	0.5	—	5.9
Exceptional interest	—	—	(2.0)	(2.0)
Profit before tax	332.2	93.3	(78.5)	347.0
Tax expense	—	—	—	(23.6)
Profit for the year				323.4
Assets and liabilities				
Segment assets	2,914.5	350.9	—	3,265.4
Unallocated assets	—	—	82.1	82.1
Total assets	2,914.5	350.9	82.1	3,347.5
Segment liabilities	(293.0)	(79.5)	—	(372.5)
Unallocated liabilities	—	—	(1,192.0)	(1,192.0)
Total liabilities	(293.0)	(79.5)	(1,192.0)	(1,564.5)
Net assets	2,621.5	271.4	(1,109.9)	1,783.0
Other segment information				
Share of profit from associate	0.9	—	—	0.9
Share of profit/(loss) from joint ventures	2.2	(0.6)	—	1.6
Total property rent (Note 5)	89.0	92.5	0.2	181.7
Capital expenditure:				
Property, plant and equipment — cash basis	214.2	72.0	0.1	286.3
Property, plant and equipment — accruals basis	245.1	71.6	—	316.7
Intangible assets	16.9	2.2	0.8	19.9
Depreciation	(94.8)	(48.5)	—	(143.3)
Amortisation	(4.9)	(3.8)	(0.5)	(9.2)



4 Segment information continued

	Hotels & Restaurants £m	Costa £m	Unallocated and elimination £m	Total operations £m
Year ended 28 February 2013*				
Revenue				
Underlying revenue from external customers	1,360.1	669.9	—	2,030.0
Inter-segment revenue	—	2.5	(2.5)	—
Exceptional revenue	—	—	—	—
Total revenue	1,360.1	672.4	(2.5)	2,030.0
Underlying operating profit before exceptional items	313.1	90.1	(26.2)	377.0
Underlying interest	—	—	(23.6)	(23.6)
Underlying profit before tax	313.1	90.1	(49.8)	353.4
Amortisation of acquired intangibles	—	(2.8)	—	(2.8)
IAS 19 income statement charge for pension finance cost	—	—	(27.0)	(27.0)
Profit before tax and exceptional items	313.1	87.3	(76.8)	323.6
Exceptional items:				
Net gain/(loss) on disposal of property, plant and equipment and property reversions	19.5	(1.1)	0.2	18.6
Impairment	(13.6)	(1.7)	—	(15.3)
Impairment reversal	9.7	0.2	—	9.9
Loss on investment	—	(1.4)	—	(1.4)
Sale of business	—	(1.9)	—	(1.9)
Exceptional interest	—	—	9.7	9.7
Profit before tax	328.7	81.4	(66.9)	343.2
Tax expense	—	—	—	(51.1)
Profit for the year				292.1
Assets and liabilities				
Segment assets	2,755.6	329.0	—	3,084.6
Unallocated assets	—	—	90.1	90.1
Total assets	2,755.6	329.0	90.1	3,174.7
Segment liabilities	(233.1)	(69.1)	—	(302.2)
Unallocated liabilities	—	—	(1,327.2)	(1,327.2)
Total liabilities	(233.1)	(69.1)	(1,327.2)	(1,629.4)
Net assets	2,522.5	259.9	(1,237.1)	1,545.3
Other segment information				
Share of profit from associate	0.8	—	—	0.8
Share of profit/(loss) from joint ventures	0.9	(0.4)	—	0.5
Total property rent (Note 5)	70.0	80.2	0.2	150.4
Capital expenditure:				
Property, plant and equipment — cash basis	252.6	76.7	—	329.3
Property, plant and equipment — accruals basis	247.2	79.6	—	326.8
Intangible assets	8.7	3.4	2.2	14.3
Depreciation	(81.9)	(38.4)	—	(120.3)
Amortisation	(4.6)	(3.5)	—	(8.1)

*Restated for the impact of IAS 19 (revised 2011), see Note 2.



Notes to the consolidated financial statements

At 27 February 2014

4 Segment information continued

Revenues from external customers are split geographically as follows:

	2013/14 £m	2012/13 £m
United Kingdom ¹	2,211.8	1,965.8
Non United Kingdom	82.5	64.2
	2,294.3	2,030.0

¹ United Kingdom revenue is revenue where the source of the supply is the United Kingdom. This includes Costa franchise income invoiced from the UK.

Non-current assets¹ are split geographically as follows:

	2014 £m	2013 £m
United Kingdom	3,084.6	2,931.6
Non United Kingdom	65.4	63.7
	3,150.0	2,995.3

¹ Non-current assets exclude derivative financial instruments.

5 Group operating profit

This is stated after charging/(crediting):

	2013/14 £m	2012/13 £m
Cost of inventories recognised as an expense	304.5	269.3
Employee benefits expense (Note 7)	607.8	541.0
Operating lease payments net of sublease receipts	189.1	156.9
Amortisation of intangible assets (Note 12)	9.2	8.1
Depreciation of property, plant and equipment (Note 13)	143.3	120.3
Utilities, rates and other site property costs	517.3	462.6
Net foreign exchange differences	0.5	(0.5)
Other operating charges	101.7	99.4
Exceptional items (Note 6)	31.9	(9.9)
	1,905.3	1,647.2

*Restated for the impact of IAS 19 (revised 2011), see Note 2.

	2013/14 £m	2012/13 £m
Minimum lease payments attributable to the current period	169.0	141.9
IAS 17 – Impact of future minimum rental uplifts	(0.2)	(1.5)
Minimum lease payments recognised as an operating expense	168.8	140.4
Contingent rents	12.9	10.0
Total property rent	181.7	150.4
Plant and machinery operating lease payments	8.8	9.2
Operating lease payments – sublease receipts	(1.4)	(2.7)
Total operating lease payments net of sublease receipts	189.1	156.9

Fees paid to the auditor during the period consisted of:

	2013/14 £m	2012/13 £m
Audit of the consolidated financial statements	0.3	0.3
Audit of subsidiaries	0.2	0.2
Total audit fees	0.5	0.5
Non-audit services	0.1	–
Included in other operating charges	0.6	0.5

6 Exceptional items and other non GAAP adjustments

	2013/14 £m	2012/13* £m
Exceptional items before tax and interest:		
Revenue		
VAT on gaming machine income ¹	(4.6)	—
Operating costs		
Net (loss)/gain on disposal of property, plant and equipment and property reversions ²	(11.7)	18.6
Impairment of property, plant and equipment (Note 14)	(22.4)	(15.3)
Impairment reversal (Note 14)	5.9	9.9
Loss on investment ³	—	(1.4)
Impairment of other intangibles (Notes 12, 14)	(3.7)	—
Sale of business ⁴	—	(1.9)
Exceptional operating costs	(31.9)	9.9
Exceptional items before interest and tax	(36.5)	9.9
Interest on exceptional tax ^{1, 5}	(1.1)	10.8
Unwinding of discount rate on provisions ⁶	(0.9)	(1.1)
	(2.0)	9.7
Exceptional items before tax	(38.5)	19.6
Other non GAAP adjustments made to underlying profit before tax to arrive at reported profit before tax:		
Amortisation of acquired intangibles (Note 12)	(2.7)	(2.8)
IAS 19 income statement charge for pension finance cost (Note 30)	(23.6)	(27.0)
	(26.3)	(29.8)
Items included in reported profit before tax, but excluded in arriving at underlying profit before tax	(64.8)	(10.2)

*Restated for the impact of IAS 19 (revised 2011), see Note 2.

Tax adjustments included in reported profit after tax, but excluded in arriving at underlying profit after tax:

	2013/14 £m	2012/13* £m
Tax on continuing exceptional items	5.6	(1.3)
Exceptional tax items — tax base cost ⁷	40.2	3.5
Exceptional tax items — disputed claims ⁵	—	13.5
Deferred tax relating to UK tax rate change	18.6	16.8
Tax on non GAAP adjustments	6.1	7.2
	70.5	39.7

*Restated for the impact of IAS 19 (revised 2011), see Note 2.

1 In the year ended 3 March 2011, the Group received a refund of VAT charged on gaming machine income of £4.6m together with some associated interest. HMRC appealed against the original ruling and the decision was overturned on 30 October 2013. Hence a liability has been booked this year for £4.6m of revenue and £1.1m of associated interest costs.

2 In 2013/14, a £6.8m provision has been raised for previously sublet properties that have reverted back to Whitbread. In addition to this, a £4.9m loss on disposal was recorded, mainly relating to Costa store closures in the international business. The non-controlling interest portion of this cost was £0.7m (2012/13: £nil). In 2012/13, a net gain of £18.6m was recognised on disposals of property, plant and equipment, the majority of which related to a sale and leaseback agreement for seven properties.

3 This represents the net loss on the sale of the joint venture in Rosworth Investments to the joint venture partner in 2012/13.

4 During the year ended 28 February 2013, Coffeeheaven Hungary was closed and subsequently liquidated. The costs incurred in this process were classed as loss on disposal of business.

5 This was the partial release of a provision in the prior year, of £13.5m, for an item which had been disputed by HMRC but has now been agreed. Interest which had been accrued for the late payment, amounting to £10.8m, was also released.

6 The interest arising from the unwinding of the discount rate within provisions is included in exceptional interest, reflecting the exceptional nature of the provisions created.

7 Reduction in deferred tax liability for differences between the tax deductible cost and accounts' residual value of assets.



Notes to the consolidated financial statements

At 27 February 2014

7 Employee benefits expense

	2013/14 £m	2012/13 £m
Wages and salaries	559.9	502.4
Social security costs	40.4	33.7
Pension costs	7.5	4.9
	607.8	541.0

Included in wages and salaries is a share-based payments expense of £11.2m (2012/13: £9.5m), which arises from transactions accounted for as equity-settled and cash-settled share-based payments.

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

	2013/14 Number	2012/13 Number
Hotels & Restaurants	24,957	23,628
Costa	11,432	10,031
Unallocated	58	57
Total operations	36,447	33,716

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

Directors' remuneration is disclosed below:

	2013/14 £m	2012/13 £m
Directors' remuneration	3.8	3.1
Aggregate contributions to defined contribution pension schemes	0.1	0.1
Aggregate gains on the exercise of share options	6.9	1.0

	2013/14 £m	2012/13 £m
Number of directors accruing benefits under defined contribution schemes	3	3



8 Finance (costs)/revenue

	2013/14 £m	2012/13* £m
Finance costs		
Bank loans and overdrafts	(20.9)	(26.5)
Other loans	(0.4)	(0.6)
Interest capitalised (Note 13)	2.6	2.7
	(18.7)	(24.4)
Impact of ineffective portion of cash flow and fair value hedges	(0.9)	—
Net pension finance cost (Note 30)	(23.6)	(27.0)
Finance costs before exceptional items	(43.2)	(51.4)
Exceptional finance costs	(1.1)	—
Unwinding of discount rate on provisions (Note 22)	(0.9)	(1.1)
Total finance costs	(45.2)	(52.5)
Finance revenue		
Bank interest receivable	0.1	0.1
Other interest receivable	0.6	0.3
	0.7	0.4
Impact of ineffective portion of cash flow and fair value hedges	—	0.4
Finance revenue before exceptional items	0.7	0.8
Exceptional finance revenue	—	10.8
Total finance revenue	0.7	11.6

*Restated for the impact of IAS 19 (revised 2011), see Note 2.

9 Taxation

	2013/14 £m	2012/13* £m
Consolidated income statement		
Current tax:		
Current tax expense	100.1	92.1
Adjustments in respect of previous periods	(4.6)	(15.0)
	95.5	77.1
Deferred tax:		
Origination and reversal of temporary differences	(13.0)	(6.7)
Adjustments in respect of previous periods	(40.3)	(2.5)
Change in UK tax rate to 20% (2012/13: 23%)	(18.6)	(16.8)
	(71.9)	(26.0)
Tax reported in the consolidated income statement	23.6	51.1

*Restated for the impact of IAS 19 (revised 2011), see Note 2.

	2013/14 £m	2012/13* £m
Consolidated statement of comprehensive income		
Current tax:		
Pensions	(14.4)	(9.0)
Deferred tax:		
Cash flow hedges	0.3	2.0
Pensions	5.7	19.0
Change in UK tax rate to 20% (2012/13: 23%) — pensions	11.8	8.5
Change in UK tax rate to 20% (2012/13: 23%) — cash flow hedges	0.5	0.5
Tax reported in other comprehensive income	3.9	21.0

*Restated for the impact of IAS 19 (revised 2011), see Note 2.

Notes to the consolidated financial statements

At 27 February 2014

9 Taxation continued

A reconciliation of the tax charge applicable to underlying profit before tax and profit before tax at the statutory tax rate, to the actual tax charge at the Group's effective tax rate, for the years ended 27 February 2014 and 28 February 2013 respectively is as follows:

	2013/14		2012/13*	
	Tax on underlying profit £m	Tax on profit £m	Tax on underlying profit £m	Tax on profit £m
Profit before tax as reported in the consolidated income statement	411.8	347.0	353.4	343.2
Tax at current UK tax rate of 23.08% (2012/13: 24.17%)	95.1	80.1	85.5	83.0
Effect of different tax rates and unrecognised losses in overseas companies	3.8	6.2	2.9	2.9
Effect of joint ventures and associate	(0.6)	(0.6)	(0.3)	(1.2)
Expenditure not allowable	0.5	1.4	3.2	0.7
Adjustments to current tax expense in respect of previous years ¹	(4.6)	(4.6)	(1.5)	(15.0)
Adjustments to deferred tax expense in respect of previous years ²	(0.1)	(40.3)	1.0	(2.5)
Impact of change of tax rate on deferred tax balance	—	(18.6)	—	(16.8)
Tax expense reported in the consolidated income statement	94.1	23.6	90.8	51.1

*Restated for the impact of IAS 19 (revised 2011), see Note 2.

1 The £15.0m in the prior year includes a £13.5m exceptional item which is disclosed in Note 6.

2 The £40.3m in the current year includes £40.2m exceptional item which is disclosed in Note 6.

The corporation tax balance is a liability of £35.1m (2013: liability of £37.7m).

Deferred tax

Deferred tax relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2014 £m	2013 £m	2013/14 £m	2012/13* £m
Deferred tax liabilities				
Accelerated capital allowances	50.3	57.8	(7.5)	(4.9)
Rolled over gains and property revaluations	86.0	146.8	(59.0)	(18.1)
Gross deferred tax liabilities	136.3	204.6		
Deferred tax assets				
Pensions	(78.7)	(92.2)	(4.0)	(2.4)
Other	(10.8)	(5.7)	(1.4)	(0.6)
Gross deferred tax assets	(89.5)	(97.9)		
Deferred tax expense			(71.9)	(26.0)
Net deferred tax liability	46.8	106.7		

*Restated for the impact of IAS 19 (revised 2011), see Note 2.

Total deferred tax liabilities released as a result of disposals during the year was £nil (2013: £0.2m).

The Group has incurred overseas tax losses which, subject to any local restrictions, can be carried forward and offset against future taxable profits in the companies in which they arose. The Group carries out an annual assessment of the recoverability of these losses and does not think it appropriate at this stage to recognise any deferred tax assets. If the Group were to recognise these deferred tax assets in their entirety, profits would increase by £6.2m (2013: £6.8m), of which, the share attributable to parent shareholders is £5.0m (2013: £5.4m).

At 27 February 2014, there was no recognised deferred tax liability (2013: £nil) for taxes that would be payable on any unremitted earnings, as all such amounts are permanently reinvested or, where they are not, there are no corporation tax consequences of such companies paying dividends to parent companies.

Tax relief on total interest capitalised amounts to £0.6m (2013: £0.7m).

Factors affecting the tax charge for future years

The Finance Act 2013 reduced the main rate of UK corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015. The effect of the new rate is to reduce the deferred tax provision by a net £7.0m, comprising a credit of £18.6m to the consolidated income statement, a charge of £12.3m to the consolidated statement of comprehensive income and a credit of £0.7m to reserves.

10 Earnings per share

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

The diluted earnings per share figures allow for the dilutive effect of the conversion into ordinary shares of the weighted average number of options outstanding during the year. Where the average share price for the year is lower than the option price, the options become anti-dilutive and are excluded from the calculation. The number of such options was nil (2013: nil).

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

	2013/14 million	2012/13 million
Basic weighted average number of ordinary shares	179.2	177.6
Effect of dilution – share options	1.9	1.5
Diluted weighted average number of ordinary shares	181.1	179.1

The total number of shares in issue at the year-end, as used in the calculation of the basic weighted average number of ordinary shares, was 194.7m, less 13.3m treasury shares held by Whitbread PLC and 1.2m held by the ESOT (2013: 193.0m, less 13.8m treasury shares held by Whitbread PLC and 1.1m held by the ESOT).

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

	2013/14 £m	2012/13* £m
Profit for the year attributable to parent shareholders	327.9	294.3
Exceptional items – gross	38.5	(19.6)
Exceptional items – taxation	(64.4)	(32.5)
Exceptional items – non-controlling interest	(1.4)	–
Profit for the year before exceptional items attributable to parent shareholders	300.6	242.2
Non GAAP adjustments – gross	26.3	29.8
Non GAAP adjustments – taxation	(6.1)	(7.2)
Underlying profit for the year attributable to parent shareholders	320.8	264.8

*Restated for the impact of IAS 19 (revised 2011), see Note 2.

	2013/14 pence	2012/13* pence
Basic on profit for the year	182.98	165.71
Exceptional items – gross	21.48	(11.04)
Exceptional items – taxation	(35.94)	(18.30)
Exceptional items – non-controlling interest	(0.78)	–
Basic on profit before exceptional items for the year	167.74	136.37
Non GAAP adjustments – gross	14.68	16.78
Non GAAP adjustments – taxation	(3.40)	(4.05)
Basic on underlying profit for the year	179.02	149.10
Diluted on profit for the year	181.06	164.32
Diluted on profit before exceptional items for the year	165.99	135.23
Diluted on underlying profit for the year	177.14	147.85

*Restated for the impact of IAS 19 (revised 2011), see Note 2.



Notes to the consolidated financial statements

At 27 February 2014

11 Dividends paid and proposed

	2013/14		2012/13	
	pence per share	£m	pence per share	£m
Final dividend relating to the prior year Settled via scrip issue (Note 26)	37.90	67.7 (28.2)	33.75	59.8 (10.9)
Paid in the year		39.5		48.9
Interim dividend for the current year Settled via scrip issue (Note 26)	21.80	39.2 (16.3)	19.50	34.7 (5.8)
Paid in the year		22.9		28.9
Total equity dividends paid in the year		62.4		77.8
Dividends on other shares:				
B share dividend	1.30	—	1.28	—
C share dividend	0.70	—	1.66	—
		—		—
Total dividends paid		62.4		77.8
Proposed for approval at Annual General Meeting: Equity dividends on ordinary shares:				
Final dividend for the current year	47.00	84.7	37.90	67.5

12 Intangible assets

	Goodwill £m	Brand £m	Customer relationships £m	IT software and technology £m	Other £m	Total £m
Cost						
At 1 March 2012	176.8	5.6	5.9	64.9	4.2	257.4
Additions	0.7	—	—	11.7	2.6	15.0
Assets written off	—	(0.5)	—	(30.0)	(1.0)	(31.5)
Transfers	—	—	—	1.8	—	1.8
Foreign currency adjustment	0.1	—	—	—	—	0.1
At 28 February 2013	177.6	5.1	5.9	48.4	5.8	242.8
Additions	—	—	—	18.5	1.4	19.9
Assets written off	—	—	—	(3.1)	—	(3.1)
Transfers	—	—	—	0.2	0.5	0.7
Foreign currency adjustment	—	—	—	—	(0.1)	(0.1)
At 27 February 2014	177.6	5.1	5.9	64.0	7.6	260.2
Amortisation and impairment						
At 1 March 2012	—	(1.2)	(0.4)	(47.2)	(2.0)	(50.8)
Amortisation during the year	—	(0.3)	(0.6)	(6.9)	(0.3)	(8.1)
Transfers	—	0.5	—	30.0	1.0	31.5
At 28 February 2013	—	(1.0)	(1.0)	(24.1)	(1.3)	(27.4)
Amortisation during the year	—	(0.4)	(0.4)	(7.9)	(0.5)	(9.2)
Amortisation on assets written off	—	—	—	3.1	—	3.1
Impairment	—	(3.7)	—	—	—	(3.7)
At 27 February 2014	—	(5.1)	(1.4)	(28.9)	(1.8)	(37.2)
Net book value at 27 February 2014	177.6	—	4.5	35.1	5.8	223.0
Net book value at 28 February 2013	177.6	4.1	4.9	24.3	4.5	215.4

Included in the amortisation for the year is amortisation relating to acquired intangibles amounting to £2.7m (2012/13: £2.8m).

12 Intangible assets continued

The carrying amount of goodwill allocated by segment is presented below:

	2014 £m	2013 £m
Hotels & Restaurants	112.6	112.6
Costa	65.0	65.0
Total	177.6	177.6

The carrying amount of goodwill at 27 February 2014 comprised £112.6m for Hotels & Restaurants and £65.0m for Costa. The Hotels & Restaurants CGU and the Costa CGU are also operating segments and represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

The brand intangible asset arose with the acquisition of Coffeeheaven in 2009/10. This has been impaired in 2013/14, as the Coffeeheaven stores are to be rebranded to Costa.

The customer relationships asset arose with the acquisition of Coffee Nation in a previous financial year. It is being amortised over a period of 15 years.

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

Other intangibles

Other intangibles comprise Costa overseas trading licences and territory fees, and Costa Express operating rights agreements and development costs.

The trading licences, which have a carrying value of £1.8m (2013: £1.8m), are deemed to have infinite lives as there is no time limit associated with them. The operating rights agreements are being amortised between six years and ten years and have a carrying value of £2.0m (2013: £2.3m). Development costs have a carrying value of £1.7m (2013: £nil) and are being amortised over six years. The balance of £0.4m (2013: £0.4m) relates to territory fees which are being amortised over 20 years.

Capital expenditure commitments

Capital expenditure commitments in relation to intangible assets at the year-end amounted to £2.7m (2013: £2.6m).

13 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 March 2012	2,176.8	962.2	3,139.0
Additions	138.6	188.2	326.8
Interest capitalised	2.7	—	2.7
Reclassified	(3.5)	3.5	—
Assets written off	(51.4)	(59.8)	(111.2)
Foreign currency adjustment	(0.8)	1.5	0.7
Transfers	—	(1.8)	(1.8)
Movements to held for sale in the year	(6.9)	(0.6)	(7.5)
Disposals	(27.6)	(14.3)	(41.9)
At 28 February 2013	2,227.9	1,078.9	3,306.8
Additions	141.9	174.8	316.7
Interest capitalised	2.6	—	2.6
Assets written off	(2.4)	(82.9)	(85.3)
Foreign currency adjustment	(4.4)	(3.6)	(8.0)
Transfers	(0.5)	(0.2)	(0.7)
Movements to held for sale in the year	(6.0)	(1.3)	(7.3)
Disposals	(7.4)	(3.4)	(10.8)
At 27 February 2014	2,351.7	1,162.3	3,514.0



Notes to the consolidated financial statements

At 27 February 2014

13 Property, plant and equipment continued

	Land and buildings £m	Plant and equipment £m	Total £m
Depreciation and impairment			
At 1 March 2012	(189.2)	(369.3)	(558.5)
Depreciation charge for the year	(13.4)	(106.9)	(120.3)
Reclassified	0.3	(0.3)	—
Impairment (Note 14)	(2.6)	(2.2)	(4.8)
Depreciation on assets written off	51.4	59.8	111.2
Foreign currency adjustment	—	(0.5)	(0.5)
Movements to held for sale in the year	5.1	0.3	5.4
Disposals	1.6	8.0	9.6
At 28 February 2013	(146.8)	(411.1)	(557.9)
Depreciation charge for the year	(14.9)	(128.4)	(143.3)
Impairment (Note 14)	(14.8)	(1.3)	(16.1)
Depreciation on assets written off	2.4	82.9	85.3
Foreign currency adjustment	0.6	1.4	2.0
Movements to held for sale in the year	2.0	0.6	2.6
Disposals	5.3	2.2	7.5
At 27 February 2014	(166.2)	(453.7)	(619.9)
Net book value at 27 February 2014	2,185.5	708.6	2,894.1
Net book value at 28 February 2013	2,081.1	667.8	2,748.9

There is a charge in favour of the pension scheme over properties with a market value of £408.0m. See Note 30 for further information.

A change in estimate of the useful lives of certain assets within the Hotels & Restaurants estate has been implemented in 2013/14 to bring them in line with the new refurbishment programme. This has led to an accelerated depreciation charge of £6.0m in 2013/14 and will have a £6.0m impact in 2014/15.

	2014 £m	2013 £m
Capital expenditure commitments		
Capital expenditure commitments for property, plant and equipment for which no provision has been made	52.3	50.1

In addition to the capital expenditure commitments disclosed above, the Group has also signed agreements with certain third-parties to develop new trading outlets within the Hotels & Restaurants strategic business unit as part of its pipeline. These developments are dependant upon the outcome of future events, such as the granting of planning permission, and consequently, do not represent a binding capital commitment at the year-end. The directors consider that developments likely to proceed as planned will result in further capital investment of £210.0m over the next five years (2013: £177.5m).

Capitalised interest

Interest capitalised during the year amounted to £2.6m, using an average rate of 4.1% (2012/13: £2.7m, using an average rate of 4.5%).

Assets held for sale

During the year, certain property assets with a net book value of £4.7m (2012/13: £2.1m) were reclassified as assets held for sale. Property assets sold during the year had a net book value of £4.3m (2012/13: £0.6m), and three trading sites with a combined net book value of £1.5m (2012/13: £1.5m) continued to be classified as held for sale at the year-end. An impairment loss of £0.4m (2012/13: £0.6m) was recognised in the year.

14 Impairment

During the year impairment losses of £22.4m (2012/13: £15.3m) and impairment reversals of £5.9m (2012/13: £9.9m) were recognised.

	2013/14 Property, plant and equipment £m	2012/13 Property, plant and equipment £m
Impairment losses		
Hotels & Restaurants	15.5	13.6
Costa	6.9	1.7
Total impairment losses	22.4	15.3
Impairment reversals		
Hotels & Restaurants	(5.4)	(9.7)
Costa	(0.5)	(0.2)
Total impairment reversals	(5.9)	(9.9)
Total net impairment charge	16.5	5.4

Property, plant and equipment

The Group considers each trading site to be a CGU and each CGU is reviewed annually for indicators of impairment.

In assessing whether an asset has been impaired, the carrying amount of the CGU is compared to its recoverable amount. The recoverable amount is the higher of its fair value, less costs of disposal and its value in use. In the absence of any information about the fair value of a CGU, the recoverable amount is deemed to be its value in use.

The Group estimates value in use using a discounted cash flow model, which applies a pre-tax discount rate of 9.9% in the UK (2012/13: 9.1%), 10.6% in China (2012/13: 10.2%) and 11.1% in Poland (2012/13: 10.6%). The future cash flows are based on assumptions from the business plans and cover a five-year period. These business plans and forecasts include management's most recent view of medium-term trading prospects. Cash flows beyond this period are extrapolated using a growth rate based upon the relevant country's inflation target, ranging from 2.0% to 6.0% with the UK, the most significant country, being 2.0% (2012/13: 2.0%).

The events and circumstances that led to the impairment charge of £22.4m are set out below:

Hotels & Restaurants

The impairment of £15.5m at 14 sites in this strategic business unit was driven by a number of factors:

- changes in the local competitive environment in which the hotels are situated;
- decisions to exit some sites where current market values are lower than book values; and
- high asset prices in the market at the point of acquisition for acquired sites and also anticipated higher growth rates at that time than are now expected.

Costa

The £6.9m impairment charge includes assets affected by the rebranding of Coffeeheaven to Costa and three UK and 45 international sites, where stores are to be closed or are underperforming. The non-controlling interest portion of this cost was £0.7m (2012/13: £nil).

Impairment reversals

Following an improvement in trading performance and an increase in amounts of estimated future cash flows of previously impaired sites, reversals of £5.9m have been recognised, £5.4m in Hotels & Restaurants and £0.5m in Costa.

Sensitivity to changes in assumptions

The level of impairment is predominantly dependent upon judgements used in arriving at future growth rates and the discount rates applied to cash flow projections. The impact on the impairment charge of applying different assumptions to the growth rates used in the five-year business plans and in the pre-tax discount rates would be an incremental impairment charge of:

Incremental impairment charge	Hotels & Restaurants £m	Costa £m	Total £m
Impairment if business plan growth rates were reduced by 1% pt	5.7	—	5.7
Impairment if discount rates were increased by 1% pt	5.3	—	5.3

Notes to the consolidated financial statements

At 27 February 2014

14 Impairment continued

Goodwill

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

The recoverable amount is the higher of fair value less costs of disposal and value in use. In the absence of a recent market transaction the recoverable amount is determined from value in use calculations. The future cash flows are based on assumptions from the business plans and cover a five-year period. These business plans and forecasts include management's most recent view of medium-term trading prospects. Cash flows beyond this period are extrapolated using a 2.0% growth rate (2012/13: 2.0%). The pre-tax discount rate applied to cash flow projections is 9.9% (2012/13: 9.1%).

The resultant impairment review required no impairment of goodwill allocated to either the Hotels & Restaurants CGU or the Costa CGU.

Brand

The brand intangible arose upon the acquisition of the Coffeeheaven business. At the time, the stores were trading as Coffeeheaven branded stores. A decision has been taken to rebrand these stores to Costa and therefore the asset has been fully impaired by £3.7m (2012/13: £nil).

15 Investment in joint ventures

Principal joint ventures	Investment held by	Principal activity	Country of incorporation	% equity interest	
				2014	2013
Premier Inn Hotels LLC	PTI Middle East Limited	Hotels	United Arab Emirates	49.0	49.0
Hualian Costa (Beijing) Food & Beverage Management Company Limited	Costa Beijing Limited	Coffee shops	China	50.0	50.0

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

	2014 £m	2013 £m
Share of joint ventures' balance sheets		
Current assets	8.7	7.1
Non-current assets	46.4	46.9
Share of gross assets	55.1	54.0
Current liabilities	(5.4)	(4.6)
Non-current liabilities	(27.1)	(27.9)
Share of gross liabilities	(32.5)	(32.5)
Loans to joint ventures	2.3	2.5
Share of net assets	24.9	24.0
	2013/14 £m	2012/13 £m
Share of joint ventures' revenue and expenses		
Revenue	21.5	17.3
Operating costs	(18.8)	(15.6)
Finance costs	(1.1)	(1.2)
Profit before tax	1.6	0.5
Tax	—	—
Net profit	1.6	0.5

At 27 February 2014, the Group's share of the capital commitments of its joint ventures amounted to £2.9m (2013: £5.5m).

16 Investment in associate

Principal associate	Investment held by	Principal activity	Country of incorporation	% equity interest	
				2014	2013
Morrison Street Hotel Limited	Whitbread Group PLC	Hotels	Scotland	40.0	40.0

The associate is a private entity which is not listed on any public exchange and, therefore, there is no published quotation price for the fair value of this investment.

The following table provides summarised information of the Group's investment in the associated undertaking:

	2014 £m	2013 £m
Share of associate's balance sheet		
Current assets	2.2	1.8
Non-current assets	5.1	5.1
Share of gross assets	7.3	6.9
Current liabilities	(0.7)	(0.5)
Non-current liabilities	(4.6)	(4.7)
Share of gross liabilities	(5.3)	(5.2)
Share of net assets	2.0	1.7
Share of associate's revenue and profit	2013/14 £m	2012/13 £m
Revenue	2.9	2.7
Profit	0.9	0.8

17 Inventories

	2014 £m	2013 £m
Raw materials and consumables (at cost)	2.4	3.5
Finished goods (at cost)	28.1	23.0
Total inventories at lower of cost and net realisable value	30.5	26.5



Notes to the consolidated financial statements

At 27 February 2014

18 Trade and other receivables

	2014 £m	2013 £m
Trade receivables	66.9	54.2
Prepayments and accrued income	46.5	39.0
Other receivables	16.7	14.2
	130.1	107.4
Analysed as:		
Current	124.1	102.1
Non-current – other receivables	6.0	5.3
	130.1	107.4

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

The provision for impairment of receivables at 27 February 2014 was £2.8m (2013: £2.9m).

The ageing analysis of trade receivables is as follows:

	2014 £m	2013 £m
Neither past due nor impaired	54.6	41.0
Less than 30 days	8.5	9.9
Between 30 and 60 days	2.8	1.9
Greater than 60 days	1.0	1.4
	66.9	54.2

19 Cash and cash equivalents

	2014 £m	2013 £m
Cash at bank and in hand	41.3	39.2
Short-term deposits	0.1	1.6
	41.4	40.8

Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group. They earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is £41.4m (2013: £40.8m).

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

	2014 £m	2013 £m
Cash at bank and in hand	41.3	39.2
Short-term deposits	0.1	1.6
	41.4	40.8

20 Financial liabilities

	Maturity	Current		Non-current	
		2014 £m	2013 £m	2014 £m	2013 £m
Bank overdrafts	On demand	—	—	—	—
Short-term borrowings	On demand	—	9.0	—	—
		—	9.0	—	—
Unsecured					
Revolving credit facility (£650m)	2018	—	—	186.4	242.0
Private placement loan notes	2017 to 2022	—	—	246.6	260.9
Total		—	9.0	433.0	502.9

Short-term borrowings

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

Revolving credit facility (£650m)

The revolving facility was entered into on 4 November 2011 and originally ran until November 2016. An extension has been agreed to take the loan to November 2018. Loans have variable interest rates linked to LIBOR. The facility is multi-currency.

Private placement loan notes

The Group holds loan notes with coupons and maturities as shown in the following table:

Title	Year issued	Principal value	Maturity	Coupon
Series A loan notes	2010	US\$40.0m	13 August 2017	4.55%
Series B loan notes	2010	US\$75.0m	13 August 2020	5.23%
Series C loan notes	2010	£25.0m	13 August 2020	5.19%
Series A loan notes	2011	US\$60.0m	26 January 2019	3.92%
Series B loan notes	2011	US\$56.5m	26 January 2019	4.12%
Series C loan notes	2011	US\$93.5m	26 January 2022	4.86%
Series D loan notes	2011	£25.0m	06 September 2021	4.89%

The Group entered into a number of cross-currency swap agreements in relation to the loan notes to eliminate any foreign exchange risk on interest rates or on the repayment of the principal borrowed. These swaps expire in line with the loan notes and are discussed in Note 24.

An analysis of the interest rate profile and the maturity of the borrowings, together with related interest rate swaps, is as follows:

	Within 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Year ended 27 February 2014					
Fixed rate	—	—	93.8	152.8	246.6
Fixed to floating rate swaps	—	—	—	(50.1)	(50.1)
Floating to fixed interest rate swaps	—	—	50.0	50.0	100.0
	—	—	143.8	152.7	296.5
Floating rate	—	—	186.4	—	186.4
Fixed to floating rate swaps	—	—	—	50.1	50.1
Floating to fixed interest rate swaps	—	—	(50.0)	(50.0)	(100.0)
	—	—	136.4	0.1	136.5
Total	—	—	280.2	152.8	433.0



Notes to the consolidated financial statements

At 27 February 2014

20 Financial liabilities continued

	Within 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Year ended 28 February 2013					
Fixed rate	—	—	26.7	234.2	260.9
Fixed to floating rate swaps	—	—	—	(50.1)	(50.1)
Floating to fixed interest rate swaps	—	—	50.0	50.0	100.0
	—	—	76.7	234.1	310.8
Floating rate	9.0	—	242.0	—	251.0
Fixed to floating rate swaps	—	—	—	50.1	50.1
Floating to fixed interest rate swaps	—	—	(50.0)	(50.0)	(100.0)
	9.0	—	192.0	0.1	201.1
Total	9.0	—	268.7	234.2	511.9

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

There are £50.0m of swaps (2013: £100.0m) with maturities beyond the life of the current revolving credit facility (2018), which are in place to hedge against the core level of debt the Group will hold.

The carrying amount of the Group's borrowings is denominated in sterling and US dollars.

At 27 February 2014, the Group had available £460.0m (2013: £405.0m) of undrawn committed borrowing facilities in respect of revolving credit facilities on which all conditions precedent had been met.

21 Movements in cash and net debt

	28 February 2013 £m	Cost of borrowings £m	Cash flow £m	Foreign exchange £m	Fair value adjustments to loans £m	Amortisation of premiums and discounts £m	27 February 2014 £m
Year ended 27 February 2014							
Cash at bank and in hand	39.2						41.3
Short-term deposits	1.6						0.1
Overdrafts	—						—
Cash and cash equivalents	40.8	—	1.9	(1.3)	—	—	41.4
Short-term bank borrowings	(9.0)	—	9.0	—	—	—	—
Loan capital under one year	—						—
Loan capital over one year	(502.9)						(433.0)
Total loan capital	(502.9)	1.7	54.9	8.2	6.5	(1.4)	(433.0)
Net debt	(471.1)	1.7	65.8	6.9	6.5	(1.4)	(391.6)

	1 March 2012 £m	Cost of borrowings £m	Cash flow £m	Foreign exchange £m	Fair value adjustments to loans £m	Amortisation of premiums and discounts £m	28 February 2013 £m
Year ended 28 February 2013							
Cash at bank and in hand	40.3						39.2
Short-term deposits	—						1.6
Overdrafts	(0.7)						—
Cash and cash equivalents	39.6	—	0.4	0.8	—	—	40.8
Short-term bank borrowings	(13.5)	—	4.5	—	—	—	(9.0)
Loan capital under one year	—						—
Loan capital over one year	(530.4)						(502.9)
Total loan capital	(530.4)	—	32.0	—	(3.1)	(1.4)	(502.9)
Net debt	(504.3)	—	36.9	0.8	(3.1)	(1.4)	(471.1)



22 Provisions

	Onerous contracts £m	Other £m	Total £m
At 1 March 2012	40.6	7.2	47.8
Created	—	0.3	0.3
Unwinding of discount rate	1.1	—	1.1
Utilised	(6.2)	(0.1)	(6.3)
At 28 February 2013	35.5	7.4	42.9
Created	6.8	0.1	6.9
Unwinding of discount rate	0.9	—	0.9
Utilised	(5.0)	(0.1)	(5.1)
At 27 February 2014	38.2	7.4	45.6
Analysed as:			
Current	12.9	—	12.9
Non-current	25.3	7.4	32.7
At 27 February 2014	38.2	7.4	45.6
Analysed as:			
Current	10.3	—	10.3
Non-current	25.2	7.4	32.6
At 28 February 2013	35.5	7.4	42.9

Onerous contracts

Onerous contract provisions relate primarily to property reversions. Provision is made for rent and other property related costs for the period that a sublet or assignment of the lease is not possible. Where the property is deemed likely to be assigned, provision is made for the best estimate of the reverse lease premium payable on the assignment.

Where the property is deemed likely to be sublet, the rental income and the timing of the cash flows are estimated by both internal and external property specialists and a provision is maintained for the estimated cost incurred by the Group.

Onerous lease provisions are discounted using a discount rate of 3.74% (2013: 3.74%) based on an approximation for the time value of money.

The amount and timing of the cash outflows are subject to variations. The Group utilises the skills and expertise of both internal and external property experts to determine the provision held. Provisions are expected to be utilised over a period of up to 25 years.

Other

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

Notes to the consolidated financial statements

At 27 February 2014

23 Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise bank loans, private placement loans, cash, short-term deposits, trade receivables and trade payables. The Group's financial instrument policies can be found in the accounting policies in Note 2. The Board agrees policies for managing the financial risks summarised below:

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term sterling debt obligations. Interest rate swaps are used to achieve the desired mix of fixed and floating rate debt in conjunction with private placement loan notes. The Group's policy is to fix, on a long-term basis, between 35% and 65% of projected net interest cost but significant transactions can lead to a short-term deviation from this policy. This policy reduces the Group's exposure to the consequences of interest rate fluctuations. At the year-end, £296.5m (68.5%) of Group debt was fixed for an average of 5.88 years at an average interest rate of 5.0% (2013: £310.8m, (61.8%), for 6.87 years, at 5.1%).

Although the private placement loan notes are US dollar denominated, cross-currency swaps mean that the interest rate risk is effectively sterling only.

In accordance with IFRS 7, the Group has undertaken sensitivity analysis on its financial instruments which are affected by changes in interest rates. This analysis has been prepared on the basis of a constant amount of net debt, a constant ratio of fixed to floating interest rates, and on the basis of the hedging instruments in place at 27 February 2014 and 28 February 2013 respectively. Consequently, the analysis relates to the situation at those dates and is not representative of the years then ended. The following assumptions were made:

- balance sheet sensitivity to interest rates applies only to derivative financial instruments, as the carrying value of debt and deposits does not change as interest rates move;
- gains or losses are recognised in equity or the income statement in line with the accounting policies set out in Note 2; and
- cash flow hedges were effective.

Based on the Group's net debt position at the year-end, a 1% pt change in interest rates would affect the Group's profit before tax by approximately £1.4m (2012/13: £1.9m), and equity by approximately £5.2m (2013: £6.6m).

Liquidity risk

In its funding strategy, the Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of overdrafts and bank loans. This strategy includes monitoring the maturity of financial liabilities to avoid the risk of a shortage of funds.

Excess cash used in managing liquidity is placed on interest-bearing deposit where maturity is fixed at no more than three months. Short-term flexibility is achieved through the use of short-term borrowing on the money markets.

The tables below summarise the maturity profile of the Group's financial liabilities at 27 February 2014 and 28 February 2013 based on contractual undiscounted payments, including interest:

	On demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	Total £m
27 February 2014						
Interest-bearing loans and borrowings	—	0.3	11.5	333.1	173.0	517.9
Derivative financial instruments	—	2.1	2.1	12.2	6.1	22.5
Trade and other payables	—	156.4	—	17.7	—	174.1
Accrued financial liabilities	—	—	158.2	—	—	158.2
Provisions in respect of financial liabilities	—	3.2	9.6	12.6	16.9	42.3
	—	162.0	181.4	375.6	196.0	915.0
28 February 2013						
Interest-bearing loans and borrowings	9.0	0.4	11.7	316.5	259.3	596.9
Derivative financial instruments	—	2.3	2.3	16.2	9.1	29.9
Trade and other payables	—	159.2	—	17.6	—	176.8
Accrued financial liabilities	—	—	113.6	—	—	113.6
Provisions in respect of financial liabilities	—	2.6	7.7	14.7	17.2	42.2
	9.0	164.5	135.3	365.0	285.6	959.4



23 Financial risk management objectives and policies continued

Credit risk

There are no significant concentrations of credit risk within the Group.

The Group is exposed to a small amount of credit risk that is primarily attributable to its trade and other receivables. This is minimised by dealing with counterparties with high credit ratings. The amounts included in the balance sheet are net of allowances for doubtful debts, which have been estimated by management based on prior experience and any known factors at the balance sheet date which may indicate that a provision is required. The Group's maximum exposure on its trade and other receivables is the carrying amount as disclosed in Note 18.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure arises from default of the counterparty, with a maximum exposure equal to the carrying value of these instruments. The Group seeks to minimise the risk of default in relation to cash and cash equivalents by spreading investments across a number of counterparties.

In the event that any of the Group's banks get into financial difficulty, the Group is exposed to the risk of withdrawal of currently undrawn committed facilities. This risk is mitigated by the Group having a range of counterparties to its facilities and by maintaining headroom.

Foreign currency risk

Foreign exchange exposure is currently not significant to the Group. Although the Group has US dollar denominated loan notes, these have been swapped into sterling thereby eliminating foreign currency risk. Sensitivity analysis has therefore not been carried out.

The Group monitors the growth and risks associated with its overseas operations and will undertake hedging activities as and when they are required.

Capital management

The Group's primary objective in regard to capital management is to ensure that it continues to operate as a going concern and has sufficient funds at its disposal to grow the business for the benefit of shareholders. The Group seeks to maintain a ratio of debt to equity that balances risks and returns and also complies with lending covenants. See pages 38 to 41 of this Report for the policies and objectives of the Board regarding capital management, analysis of the Group's credit facilities and financing plans for the coming years.

The Group aims to maintain sufficient funds for working capital and future investment in order to meet growth targets. The Group has adopted a framework to keep leverage (debt divided by EBITDAR) on a pensions lease adjusted basis at 3.5 times or below, which was achieved for the year ended 27 February 2014. This calculation takes account of net debt, the pension deficit and the capital value of leases. The management of equity through share buy backs and new issues is considered as part of the overall leverage framework balanced against the funding requirements of future growth. In addition, the Group may carry out a number of small sale and leaseback transactions to provide further funding for growth.

The Group's financing is subject to financial covenants. These covenants relate to the measurement of EBITDA against consolidated net finance charges (interest cover) and total net debt (leverage ratio, on a not-adjusted-for pension and property lease basis). The Group has complied with all of these covenants.

The above matters are considered at regular intervals and form part of the business planning and budgeting processes. In addition, the Board regularly reviews the Group's dividend policy and funding strategy.

24 Financial instruments

Fair values

As in the prior year, the carrying value of financial assets and liabilities disclosed in Notes 18, 19, 20, 21, 22 and 25 are considered to be reasonable approximations of their fair values.

The fair value of loan capital and derivative instruments is calculated by discounting all future cash flows by the market yield curve at the balance sheet date using level 2 techniques.

Notes to the consolidated financial statements

At 27 February 2014

24 Financial instruments continued

Hierarchical classification of financial assets and liabilities measured at fair value

IFRS 13 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive the fair value. The classification uses the following three-level hierarchy:

Level 1

Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2

Other techniques for which all inputs, which have a significant effect on the recorded fair value, are observable, either directly or indirectly.

Level 3

Techniques which use inputs, which have a significant effect on the recorded fair value, that are not based on observable market data.

27 February 2014	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Derivative financial instruments	—	—	—	—
Financial liabilities				
Derivative financial instruments	—	29.0	—	29.0

28 February 2013	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Derivative financial instruments	—	8.5	—	8.5
Financial liabilities				
Derivative financial instruments	—	23.3	—	23.3

During the year ended 27 February 2014, there were no transfers between fair value measurement levels. Derivative financial instruments include £nil assets (2013: £7.0m) and £24.7m liabilities (2013: £18.7m) due after one year.

Derivative financial instruments

Hedges

Cash flow hedges

At 27 February 2014, the Group has interest rate swaps in place to swap a notional amount of £100.0m (2013: £100.0m) whereby, it receives variable interest rates based on LIBOR on the notional amount and pays fixed rates of between 5.145% and 5.372% (2013: 5.145% and 5.372%). The swaps are being used to hedge the exposure to changes in future cash flows from variable rate debt. The Group also has cross-currency swaps in place whereby it receives a fixed interest rate of between 3.92% and 4.86% (2013: 3.92% and 4.86%) on a notional amount of US\$250.0m (2013: US\$250.0m) and paid an average of 4.72% on a notional sterling balance of £158.2m (2013: 4.72% on £158.2m).

There are £50.0m of swaps (2013: £100.0m) with maturities beyond the life of the current revolving credit facility (2018) which are in place to hedge against the core level of debt the Group will hold.

Fair value hedges

At 27 February 2014, the Group has cross-currency swaps in place whereby it receives a fixed interest rate of 5.23% (2013: 5.23%) on a notional amount of US\$75.0m (2013: US\$75.0m) and pays a spread of between 1.715% and 1.755% (2013: 1.715% and 1.755%) over 6m GBP LIBOR on a notional sterling balance of £50.1m (2013: £50.1m).

Cash flow and fair value hedges are expected to impact on the income statement in line with the liquidity risk table shown in Note 23.

The cash flow hedges were assessed to be highly effective at 27 February 2014 and a net unrealised gain of £1.4m (2012/13: net unrealised gain of £8.3m) has been recorded in other comprehensive income. The fair value hedges were also assessed to be highly effective at 27 February 2014, with a debit of £0.9m recorded within finance costs in the income statement (2012/13: a credit of £0.4m). During the year, a loss of £3.8m (2012/13: £7.0m) was charged to the income statement in respect of hedged items affecting the net finance charge for the year.

25 Trade and other payables

	2014 £m	2013 £m
Trade payables	109.3	111.6
Other taxes and social security	56.4	39.6
Deferred income	52.0	35.2
Accruals	158.2	113.6
Other payables	64.8	65.2
	440.7	365.2
Analysed as:		
Current	423.0	347.6
Non-current	17.7	17.6
	440.7	365.2

26 Share capital

Ordinary share capital

	million	£m
Allotted, called up and fully paid ordinary shares of 76.80p each (2013: 76.80p each)		
At 1 March 2012	192.0	147.5
Issued	0.2	0.2
Issued in lieu of dividends:		
2011/12 final	0.6	0.4
2012/13 interim	0.2	0.2
At 28 February 2013	193.0	148.3
Issued	0.2	0.2
Issued in lieu of dividends:		
2012/13 final	1.0	0.8
2013/14 interim	0.5	0.3
At 27 February 2014	194.7	149.6

At the 2013 Annual General Meeting, the Company was authorised to purchase up to 17.9m of its own shares on the open market.

During the year, no ordinary shares were acquired (2012/13: nil). No shares were cancelled in the year (2012/13: nil). The remainder are being held in the treasury reserve (Note 27).

During the year, options over 0.2m ordinary shares, fully paid, were exercised by employees under the terms of various share option schemes (2012/13: 0.2m).

Shareholders were offered a scrip alternative to the 2012/13 cash final dividend of 37.90p and to the 2013/14 cash interim dividend of 21.80p. Ordinary shares issued in respect of this totalled 1,482,215. The issue of shares in lieu of cash dividends is treated as a bonus issue, with the nominal value of the shares being charged against the share premium account.

The total number of shares in issue at the year-end, as used in the calculation of the basic weighted average number of ordinary shares, was 194.7m, less 13.3m treasury shares held by Whitbread PLC and 1.2m held by the employee share ownership trust (ESOT) (2013: 193.0m, less 13.8m treasury shares held by Whitbread PLC and 1.1m held by the ESOT).



Notes to the consolidated financial statements

At 27 February 2014

26 Share capital continued

Preference share capital

Allotted, called up and fully paid shares of 1p each (2013: 1p each)	B shares		C shares	
	million	£m	million	£m
At 1 March 2012	2.0	—	1.9	—
Repurchased and cancelled	—	—	—	—
At 28 February 2013	2.0	—	1.9	—
Repurchased and cancelled	—	—	—	—
At 27 February 2014	2.0	—	1.9	—

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

C shareholders are entitled to an annual non-cumulative preference dividend paid in arrears on or around 14 January each year on a value of 159 pence per share.

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

27 Reserves

Share premium

The share premium reserve is the premium paid on the Company's 76.80p ordinary shares. The issue of shares in lieu of cash dividends is treated as a bonus issue, with the nominal value of the shares being charged against the share premium account. During the year, shares with a nominal value of £1.1m were issued in lieu of the 2012/13 final and 2013/14 interim cash dividends (2012/13: £0.6m).

Capital redemption reserve

A capital redemption reserve was created on the cancellation of the Group's B and C preference shares (Note 26) and also includes the nominal value of cancelled ordinary shares.

Retained earnings

In accordance with IFRS practice, retained earnings include revaluation reserves which are not distributable under UK law.

Currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the consolidated financial statements of foreign subsidiaries and other foreign currency investments.

Treasury reserve

This reserve relates to shares held by an independently managed employee share ownership trust (ESOT) and treasury shares held by Whitbread PLC. The shares held by the ESOT were purchased in order to satisfy outstanding employee share options and potential awards under the Long Term Incentive Plan (LTIP) and other incentive schemes.

Merger reserve

The merger reserve arose as a consequence of the merger in 2000/01 of Whitbread Group PLC and Whitbread PLC.

27 Reserves continued

Hedging reserve

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

The total of the treasury, merger and hedging reserves equals other reserves in the consolidated balance sheet.

The movement in treasury shares during the year is set out in the table below:

	Treasury shares held by Whitbread PLC		ESOT shares held	
	million	£m	million	£m
At 1 March 2012	14.1	206.6	0.9	13.7
Transferred	(0.3)	(5.1)	0.3	5.1
Purchased	—	—	0.1	3.2
Exercised during the year	—	—	(0.2)	(3.6)
At 28 February 2013	13.8	201.5	1.1	18.4
Transferred	(0.5)	(6.8)	0.5	6.8
Exercised during the year	—	—	(0.4)	(7.3)
At 27 February 2014	13.3	194.7	1.2	17.9

The treasury shares reduce the amount of reserves available for distribution to shareholders by £212.6m (2013: £219.9m).

28 Commitments and contingencies

Operating lease commitments

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

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

Future minimum rentals payable under non-cancellable operating leases, on an undiscounted basis, are as follows:

	2014 £m	2013 £m
Due within one year	173.0	163.1
Due after one year but not more than five years	598.2	554.6
Due after five years but not more than ten years	543.3	502.1
Due after ten years	1,263.2	1,240.7
	2,577.7	2,460.5

Future minimum rentals payable under non-cancellable operating leases disclosed above includes £109.7m in relation to privity contracts (2013: £123.0m). Future lease costs in respect of these privity contracts are included within the onerous contracts provision (Note 22). Onerous contracts are under constant review and every effort is taken to reduce this obligation.

The weighted average lease life of future minimum rentals payable under non-cancellable operating leases is 14.0 years (2013: 14.7 years).

Group companies have sublet space in certain properties. The future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 27 February 2014 are £13.6m (2013: £11.8m).

Contingent liabilities

There are no contingent liabilities to be disclosed in the year ended 27 February 2014. In the prior year, there was a £5.3m contingent liability which has been recognised as a liability in this financial year. See Note 6 for further details.

Notes to the consolidated financial statements

At 27 February 2014

29 Share-based payment plans

Long Term Incentive Plan (LTIP)

The LTIP awards shares to directors and senior executives of the Group. Vesting of all shares under the scheme will depend on continued employment and meeting earnings per share (EPS) performance targets over a three-year period (the vesting period). In addition, awards from 2012 onwards are dependent on meeting a return on capital employed (ROCE) target over the vesting period. Grants prior to this were dependent on meeting a total shareholder return (TSR) target over the vesting period. Details of the performance targets for the LTIP awards can be seen in the remuneration report on pages 67 to 76.

The awards are settled in equity once exercised.

Movements in the number of share awards are as follows:

	2014 Awards	2013 Awards
Outstanding at the beginning of the year	958,874	888,885
Granted during the year	320,130	339,816
Exercised during the year	(250,299)	(227,087)
Expired during the year	(51,357)	(42,740)
Outstanding at the end of the year	977,348	958,874
Exercisable at the end of the year	35,310	119,293

Deferred equity awards

Awards are made under the Whitbread Leadership Group Incentive Scheme implemented during 2004/05.

The awards are not subject to performance conditions and will vest in full on the release date subject to continued employment at that date. If the director or senior executive of the Group ceases to be an employee of Whitbread prior to the release date, normally three years after the award, by reason of redundancy, retirement, death, injury, ill health, disability or some other reason considered to be appropriate by the Remuneration Committee, the awards will be released in full. If employment ceases for any other reason, the proportion of awards which vest depends upon the year in which the award was made and the date that employment ceased. If employment ceases in the first year after an award is made none of the awards vest, between the first and second anniversary, 25% vests and between the second and third anniversary, 50% vests.

Movements in the number of share awards are as follows:

	2014 Awards	2013 Awards
Outstanding at the beginning of the year	503,887	393,243
Granted during the year	187,693	154,203
Exercised during the year	(192,120)	(13,751)
Expired during the year	(20,966)	(29,808)
Outstanding at the end of the year	478,494	503,887
Exercisable at the end of the year	—	—

29 Share-based payment plans continued

Employee sharesave scheme

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

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

	2014		2013	
	Options	WAEP £ per share	Options	WAEP £ per share
Outstanding at the beginning of the year	1,125,508	16.27	1,160,139	11.91
Granted during the year	385,072	27.46	399,084	19.14
Exercised during the year	(225,863)	10.79	(221,547)	9.85
Expired during the year	(185,695)	16.84	(212,168)	15.51
Outstanding at the end of the year	1,099,022	19.58	1,125,508	16.27
Exercisable at the end of the year	23,226	10.93	15,881	10.44

The weighted average contractual life of the share options outstanding as at 27 February 2014 is between two and three years. Outstanding options to purchase ordinary shares of 76.80 pence between 2013 and 2018 are exercisable at prices between £7.28 and £27.46 (2013: between 2012 and 2017 at prices between £7.28 and £19.14). The fair value of share options granted is estimated as at the date of grant using a stochastic model, taking into account the terms and conditions upon which the options were granted.

The weighted average share price at the date of exercise for employee share scheme options exercised during the year was £37.62 (2013: £24.51).

Total charged to the income statement

	2013/14 £m	2012/13 £m
Long Term Incentive Plan	5.4	4.1
Deferred equity	4.0	3.5
Employee share scheme	1.8	1.9
	11.2	9.5
Equity-settled	10.6	9.2
Cash-settled	0.6	0.3
	11.2	9.5

The following table lists the inputs to the model used for the years ended 27 February 2014 and 28 February 2013:

	Grant date	Number of shares granted	Fair value %	Fair value £	Exercise price £	Price at grant date £	Expected term Years	Expected dividend yield %	Expected volatility %	Risk-free rate %	Vesting conditions
LTIP awards	02/05/2013	320,130	92.8	7,783,513	—	26.20	3.00	2.5	n/a	n/a	Non-market ^{1,2,3}
	19/06/2012	339,816	91.4	6,109,341	—	19.67	3.00	3.0	n/a	n/a	Non-market ^{1,2,3}
Deferred equity awards	30/04/2013	187,693	92.8	4,450,276	—	25.55	3.00	2.5	n/a	n/a	Service ³
	26/04/2012	154,203	91.4	2,707,487	—	19.21	3.00	3.0	n/a	n/a	Service ³
SAYE — 3 years	29/11/2013	311,010	22.8	2,529,370	27.46	35.67	3.25	2.5	20.0	0.97	Service ³
	30/11/2012	335,917	23.0	1,853,489	19.14	23.99	3.25	2.5	25.0	0.46	Service ³
SAYE — 5 years	29/11/2013	74,062	24.6	649,881	27.46	35.67	5.25	2.5	20.0	1.71	Service ³
	30/11/2012	63,167	24.9	377,720	19.14	23.99	5.25	2.5	25.0	0.92	Service ³

1 Return on capital employed.

2 Earnings per share.

3 Employment service.



Notes to the consolidated financial statements

At 27 February 2014

29 Share-based payment plans continued

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

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

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

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

Employees share ownership trust (ESOT)

The Company funds an ESOT to enable it to acquire and hold shares for the LTIP. The ESOT held 1.2m shares at 27 February 2014 (2013: 1.1m). All dividends on the shares in the ESOT are waived by the Trustee.

30 Retirement benefits

Defined contribution schemes

The Group operates a contracted-in defined contribution scheme under the Whitbread Group Pension Fund. Contributions by both employees and Group companies are held in externally invested, trustee-administered funds. The Group also had a contracted-out defined contribution pension scheme which was wound up during 2012.

The Group contributes a specified percentage of earnings for members of the above defined contribution scheme, and thereafter has no further obligations in relation to the scheme. The total cost charged to income in relation to the defined contribution scheme in the year was £6.8m (2012/13: £4.1m).

At the year-end, 25,770 employees (2013: 2,897) were active members of the scheme, which also had 4,172 deferred members (2013: 4,104).

Defined benefit scheme

The defined benefit (final salary) section of the principal Group pension scheme, the Whitbread Group Pension Fund, was closed to new members on 31 December 2001 and to future accrual on 31 December 2009.

At the year-end the scheme had no active members (2013: nil), 24,161 deferred pensioners (2013: 24,851) and 16,681 pensions in payment (2013: 16,662).

The liability recognised in the balance sheet in respect of the defined benefit pension scheme is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The IAS 19 (revised 2011) pension cost relating to the defined benefit section of the Whitbread Group Pension Fund is assessed in accordance with actuarial advice from Lane Clark & Peacock and calculations provided by Towers Watson, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that have terms to maturity approximating to the terms of the related pension obligation. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. As the scheme is closed to future accrual, there is no future service cost.

The weighted average duration of the defined benefit plan obligation at the end of the reporting period is 17.5 years (2013: 17.5 years).

30 Retirement benefits continued

Funding

Expected contributions to be made in the next reporting period total £76.4m (2013: £66.1m). In 2013/14, contributions were £71.2m with £62.4m from the employer, £8.7m from Moorgate SLP and £0.1m of benefits settled by the Group in relation to an unfunded scheme (2012/13: £45.7m, with £37.2m from the employer, £8.4m from Moorgate SLP and £0.1m of benefits settled by the Group in relation to an unfunded scheme).

A scheme specific actuarial valuation for the purpose of determining the level of cash contributions to be paid into the Whitbread Group Pension Fund was undertaken as at 31 March 2011. A deficit recovery plan and some protection whilst the scheme remains in deficit, have been agreed with the Trustee. The Group made a £60.0m payment in 2013/14 and will make the following payments to the Fund: £65.0m in each of August 2014 and August 2015; £70.0m in August 2016; £80.0m in August 2017 and £70.0m in August 2018. For the period of the deficit, the Group has agreed to give undertakings to the Trustee similar to some of the covenants provided in respect of its banking agreements, up to the value of any outstanding recovery plan payments or the remaining deficit, if lower. Until the next valuation, the Trustee has also been given a promise of accelerated payments of up to £5.0m per annum where increases in ordinary dividends exceed RPI and the right to consultation before any special distributions can be made.

In addition to the scheduled deficit contribution payments described above, the Pension Scheme will receive a share of the income, profits and a variable capital payment from its investment in Moorgate Scottish Limited Partnership (SLP), which was established by the Group in the year ended 4 March 2010 (the share in profits is accounted for by the Group as contributions when paid). The partnership interests in Moorgate SLP are held by the Group, the general partner and by the Pension Scheme.

Moorgate SLP holds an investment in a further partnership, Farringdon Scottish Partnership (SP), which was also established by the Group during 2009/10. Property assets with a market value of £221.0m have been transferred from other Group companies to Farringdon SP and leased back to Whitbread Group PLC and Premier Inn Hotels Limited. The Group retains control over these properties, including the flexibility to substitute alternative properties. However, the Trustee has first charge over the property portfolio and certain other assets with an aggregate value of £228.0m. The Group retains control over both partnerships and, as such, they are fully consolidated in these consolidated financial statements.

The Pension Scheme is a partner in Moorgate SLP and, as such, is entitled to an annual share of the profits of the partnership over the next 11 years. At the end of this period, the partnership capital allocated to the Pension Scheme partner will, depending on the funding position of the Pension Scheme at that time, be transferred in cash to the Pension Scheme up to a value of £150.0m (2013: £150.0m).

Under IAS 19 (revised 2011), the investment held by the Pension Scheme in Moorgate SLP, a consolidated entity, does not represent a plan asset for the purposes of the consolidated financial statements. Accordingly the pension deficit position in these consolidated financial statements does not reflect the £141.0m (2013: £141.0m) investment in Moorgate SLP held by the Pension Scheme.

During the year ended 28 February 2013, the Group entered into a charge in favour of Whitbread Pension Trustees Limited over properties with a market value totalling £180.0m at that date. The charge was to secure the obligations of the Group to make payments to the Pension Fund as part of the recovery plan to reduce the deficit. This, together with the properties secured as a consequence of the arrangement surrounding the Scottish Limited Partnerships, secures properties totalling £408.0m in favour of the Pension Scheme.

Risks

Through its defined benefit scheme, the Group is exposed to a number of risks in relation to the IAS 19 deficit, the most significant of which are detailed below:

Risk	Description	Principal impact on assets and obligation reconciliations
Market volatility	The defined benefit obligation is linked to AA-rated corporate bonds whilst scheme assets are invested in equities, gilts, bonds, property and cash. This exposes the Group to risks including those relating to interest rates, equity markets, property markets and foreign exchange. Changing market conditions, in conjunction with discount rate fluctuations, will lead to volatility in the Group's net pension liability on the balance sheet, pension expense in the income statement and re-measurement movements in other comprehensive income.	Return on plan assets
Inflationary risk	Due to the link between the scheme obligation and inflation, an increased rate of inflation will lead to higher scheme liabilities.	Actuarial movements in financial assumptions
Accounting assumptions	The defined benefit obligation is calculated by projecting the future cash flows of the scheme for many years into the future. Consequently, the assumptions used can have a significant impact on the balance sheet position and income statement charge. In practice, future Scheme experience may not be in line with the assumptions adopted. For example, an increase in the life expectancy of members would increase scheme liabilities.	Discount rate: interest income on scheme assets and cost on liabilities Mortality: actuarial movements in demographic assumptions

Notes to the consolidated financial statements

At 27 February 2014

30 Retirement benefits continued

The principal assumptions used by the independent qualified actuaries in updating the most recent valuation carried out as at 31 March 2011 of the UK scheme to 27 February 2014 for IAS 19 (revised 2011) purposes were:

	At 27 February 2014 %	At 28 February 2013 %
Pre-April 2006 rate of increase in pensions in payment	3.10	3.20
Post-April 2006 rate of increase in pensions in payment	2.20	2.20
Pension increases in deferment	3.10	3.20
Discount rate	4.30	4.60
Inflation assumption	3.25	3.35

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 20.0 years (2013: 19.9 years) if they are male and for a further 22.6 years (2013: 22.5 years) if they are female. For a member who retires in 2034 at age 65, the assumptions are that they will live on average for a further 21.9 years (2013: 21.8 years) after retirement if they are male and for a further 24.4 years (2013: 24.4 years) after retirement if they are female.

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

Amounts recognised in operating profit for service costs or curtailment are £nil (2012/13: £nil).

	2013/14 £m	2012/13 ¹ £m
Net interest on net defined benefit liability	23.6	27.0
Administrative expenses	2.5	3.1
Total expense recognised in the income statement (gross of deferred tax)	26.1	30.1

The amounts taken to the consolidated statement of comprehensive income are as follows:

	2013/14 £m	2012/13 ¹ £m
Actuarial losses	77.7	74.7
Return on plan assets greater than discount rate	(40.0)	(116.1)
Re-measurement effects recognised in other comprehensive income	37.7	(41.4)

The amounts recognised in the balance sheet are as follows:

	2014 £m	2013 £m
Present value of defined benefit obligation	(2,104.9)	(2,021.6)
Fair value of scheme assets	1,570.6	1,479.9
Liability recognised in the balance sheet	(534.3)	(541.7)

During the year, the accounting deficit decreased from £541.7m at 28 February 2013 to £534.3m at 27 February 2014. The principal reason for this gain was due to improved asset performance and the fact that employer contributions exceeded the pension expense for the year. These two positive factors were offset by an increase in the defined benefit obligation as a result of the reduction in the discount rate.

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

	2014 £m	2013 ¹ £m
Opening defined benefit obligation	2,021.6	1,939.7
Interest cost	91.1	88.4
Re-measurement due to:		
Changes in financial assumptions	74.0	80.0
Changes in demographic assumptions	—	—
Experience adjustments	3.7	(5.3)
Benefits paid	(85.4)	(81.1)
Benefits settled by the Group in relation to an unfunded pension scheme ³	(0.1)	(0.1)
Closing defined benefit obligation	2,104.9	2,021.6

30 Retirement benefits continued

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

	2014 £m	2013 ¹ £m
Opening fair value of scheme assets	1,479.9	1,341.0
Interest income on scheme assets	67.5	61.4
Return on plan assets greater than discount rate	40.0	116.1
Contributions from employer ³	62.4	37.2
Additional contributions from Moorgate SLP ³	8.7	8.4
Benefits paid	(85.4)	(81.1)
Administrative expenses	(2.5)	(3.1)
Closing fair value of scheme assets	1,570.6	1,479.9

The major categories of plan assets are as follows:

	2014			2013		
	Quoted and pooled £m	Unquoted £m	Total £m	Quoted and pooled £m	Unquoted £m	Total £m
Equities	829.2	108.3	937.5	771.6	96.9	868.5
Government bonds	322.8	—	322.8	317.1	—	317.1
Corporate bonds	154.5	—	154.5	173.5	—	173.5
Property	63.6	14.8	78.4	53.8	14.8	68.6
Other ²	77.4	—	77.4	52.2	—	52.2
	1,447.5	123.1	1,570.6	1,368.2	111.7	1,479.9

The fair values of the assets have not materially changed due to the adoption of IFRS 13.

The assumptions in relation to discount rate, inflation and mortality have a significant effect on the measurement of scheme liabilities. The following table shows the sensitivity of the valuation to changes in these assumptions:

	(Increase)/decrease in liability	
	2014 £m	2013 £m
Discount rate		
0.25% increase to discount rate	88.0	83.0
0.25% decrease to discount rate	(88.0)	(83.0)
Inflation		
0.25% increase to inflation rate	(84.0)	(80.0)
0.25% decrease to inflation rate	84.0	80.0
Life expectancy		
Additional one year increase to life expectancy	(75.0)	(70.0)

The above sensitivity analyses are based on a change in an assumption whilst holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (projected unit credit method) has been applied as when calculating the pension liability recognised within the balance sheet. The methods and types of assumption did not change.

1 IAS 19 (revised 2011) has been adopted for the year ended 27 February 2014 and the comparatives for the year ended 28 February 2013 have been restated accordingly. Refer to Note 2 of the consolidated financial statements.

2 Other relates to assets held in respect of cash and net current assets.

3 The total of these three items equals the cash paid by the Group as per the consolidated cash flow statement.

Notes to the consolidated financial statements

At 27 February 2014

31 Related party disclosure

The Group's principal subsidiaries are listed in the following table:

Principal subsidiaries	Principal activity	Country of incorporation	% equity interest and votes held	
			2014	2013
Whitbread Group PLC	Hotels & Restaurants	England	100.0	100.0
Premier Inn Hotels Limited	Hotels	England	100.0	100.0
Whitbread Restaurants Limited	Restaurants	England	100.0	100.0
Premier Inn Limited	Hotels	England	100.0	100.0
Costa Limited	Operators of coffee shops and roasters and wholesalers of coffee beans	England	100.0	100.0
Yueda Costa (Shanghai) Food & Beverage Management Company Limited	Operators of coffee shops	China	51.0	51.0
Coffeeheaven International Limited	Operators of coffee shops in Eastern Europe	England	100.0	100.0
Coffee Nation Limited	Operators of customer-facing, espresso-based self-serve coffee bars	England	100.0	100.0

The Group holds 6% as a general partnership interest in Moorgate Scottish Limited Partnership (SLP) with Whitbread Pension Trustees holding the balance as a limited partner. Moorgate SLP holds a 67.8% investment in a further partnership, Farringdon Scottish Partnership (SP), which was established by the Group to hold property assets. The remaining 32.2% interest in Farringdon SP is owned by the Group. The partnerships were set up in 2009/10 as part of a transaction with Whitbread Pension Trustees and the Group retains control over both partnerships and, as such, they are fully consolidated in these consolidated financial statements. Further details can be found in Note 30.

Shares in Whitbread Group PLC are held directly by Whitbread PLC. Shares in the other subsidiaries are held directly or indirectly by Whitbread Group PLC. All principal subsidiary undertakings have the same year-end as Whitbread PLC, with the exception of Yueda Costa (Shanghai) Food & Beverage Management Company Limited which has a year-end of 31 December as required by Chinese legislation. All the above companies have been included in the Group consolidation. The companies listed above are those which materially affect the amount of profit and the assets of the Group.

Related party

	Sales to related party £m	Amounts owed by related party £m	Amounts owed to related party £m
Joint ventures			
2013/14	3.1	1.2	—
2012/13	2.7	1.2	—
Associate			
2013/14	3.8	0.7	—
2012/13	3.1	0.4	—

Compensation of key management personnel (including directors):

	2013/14 £m	2012/13 £m
Short-term employee benefits	6.8	5.8
Post employment benefits	0.2	0.2
Share-based payments	4.5	4.2
	11.5	10.2



31 Related party disclosure continued

Joint ventures

For details of the Group's investments in joint ventures see Note 15.

Associate

For details of the Group's investment in associate see Note 16.

Terms and conditions of transactions with related parties

Sales to, and purchases from, related parties are made at normal market prices. Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided, or received, for any related party receivables. For the year ended 27 February 2014, the Group has not raised a provision for doubtful debts relating to amounts owed by related parties (2013: £nil). An assessment is undertaken, each financial year, through examining the financial position of the related parties and the markets in which the related parties operate.

Transactions with other related parties

Details of transactions with directors are detailed in the remuneration report on pages 67 to 76.

32 Events after the balance sheet date

A final dividend of 47.00p per share (2013: 37.90p) amounting to a dividend of £84.7m (2013: £67.5m) was recommended by the directors at their meeting on 28 April 2014. A dividend reinvestment plan (DRIP) alternative will be offered. These consolidated financial statements do not reflect this dividend payable.



[Overview p1/5](#)

[Strategic report p6/43](#)

[Governance p44/81](#)

[Consolidated accounts 2013/14 p83/133](#)

[Company accounts 2013/14 p135/142](#)



Company accounts 2013/14

- 136 Directors' responsibility for the Company financial statements
- 137 Independent auditor's report
- 138 Balance sheet
- 139 Notes to the accounts



Directors' responsibility for the Company financial statements

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the Company financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare Company financial statements for each financial year. Under that law, the directors have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law).

Under company law, the directors must not approve the Company financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and
- prepare the Company financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



Independent auditor's report to the members of Whitbread PLC

Independent auditor's report to the members of Whitbread PLC

We have audited the Company financial statements of Whitbread PLC for the year ended 27 February 2014 which comprise the Balance Sheet and related Notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This Report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this Report, or for the opinions we have formed.

Respective responsibilities of directors and of auditor

As explained more fully in the statement of directors' responsibilities set out on page 136, the directors are responsible for the preparation of the Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Company financial statements

An audit involves obtaining evidence about the amounts and disclosures in the Company financial statements sufficient to give reasonable assurance that the Company financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Company financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Company financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the Company financial statements

In our opinion the Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 27 February 2014;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the strategic report for the financial year for which the consolidated financial statements are prepared is consistent with the Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the consolidated financial statements of Whitbread PLC for the year ended 27 February 2014.

Richard Wilson

(Senior statutory auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
London

28 April 2014



Balance sheet

At 27 February 2014

	Notes	27 February 2014 £m	28 February 2013 £m
Fixed assets			
Investment in subsidiaries	5	2,256.1	2,256.1
Total non-current assets		2,256.1	2,256.1
Current assets			
Debtors: amounts falling due within one year	6	74.9	132.5
Current liabilities			
Creditors: amounts falling due within one year	7	(7.9)	(8.7)
Net current assets		67.0	123.8
Net assets		2,323.1	2,379.9
Capital and reserves			
Share capital	8	149.6	148.3
Share premium	9	56.2	55.1
Capital redemption reserve	9	12.3	12.3
Retained earnings	9	2,299.7	2,365.7
Other reserves	9	(194.7)	(201.5)
Shareholders' funds	9	2,323.1	2,379.9

Andy Harrison
Chief Executive

Nicholas Cadbury
Finance Director

28 April 2014



Notes to the accounts

At 27 February 2014

1 Basis of accounting

The financial statements of Whitbread PLC for the year ended 27 February 2014 were authorised for issue by the Board of Directors on 28 April 2014.

The financial statements are prepared under the historical cost convention and in accordance with applicable UK Accounting Standards.

The Company has taken advantage of the provisions of FRS 1 (revised) which exempts companies which are part of a group for which a consolidated cash flow statement is prepared, from preparing a cash flow statement. The required consolidated cash flow statement has been included within the consolidated financial statements of the Group.

2 Summary of significant accounting policies

Investments

Investments held as fixed assets are stated at cost less provision for any impairment. The carrying value of investments are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

3 Profit earned for ordinary shareholders

The profit and loss account of the parent Company is omitted from the Company's accounts by virtue of the exemption granted by Section 408 of the Companies Act 2006. The profit earned for ordinary shareholders and included in the financial statements of the parent Company amounted to £3.2m (2012/13: £5.9m).

4 Dividends paid and proposed

	2013/14		2012/13	
	pence per share	£m	pence per share	£m
Final dividend relating to the prior year Settled via scrip issue	37.90	67.7 (28.2)	33.75	59.8 (10.9)
Paid in the year		39.5		48.9
Interim dividend for the current year Settled via scrip issue	21.80	39.2 (16.3)	19.50	34.7 (5.8)
Paid in the year		22.9		28.9
Total equity dividends paid in the year		62.4		77.8
Dividends on other shares:				
B share dividend	1.30	—	1.28	—
C share dividend	0.70	—	1.66	—
		—		—
Total dividends paid		62.4		77.8
Proposed for approval at Annual General Meeting: Equity dividends on ordinary share:				
Final dividend for the current year	47.00	84.7	37.90	67.5

A final dividend of 47.00p per share (2013: 37.90p) amounting to a dividend of £84.7m (2013: £67.5m) was recommended by the directors at their meeting on 28 April 2014. A dividend reinvestment plan (DRIP) alternative will be offered. These financial statements do not reflect this dividend payable.



Notes to the accounts

At 27 February 2014

5 Investment in subsidiary undertakings

Shares at cost	2014 £m	2013 £m
At 28 February 2013 and 27 February 2014	2,256.1	2,256.1

Principal subsidiary undertakings	Principal activity	Country of incorporation or registration	Country of principal operations	% of equity and votes held
Whitbread Group PLC	Hotels & Restaurants	England	England	100.0
Premier Inn Hotels Limited	Hotels	England	England	100.0
Whitbread Restaurants Limited	Restaurants	England	England	100.0
Premier Inn Limited	Hotels	England	England	100.0
Costa Limited	Operators of coffee shops and roasters and wholesalers of coffee beans	England	England	100.0
Yueda Costa (Shanghai) Food & Beverage Management Company Limited	Operators of coffee shops	China	China	51.0
Coffeeheaven International Limited	Operators of coffee shops in Eastern Europe	England	Poland	100.0
Coffee Nation Limited	Operators of customer-facing espresso-based self-serve coffee bars	England	England	100.0

The Company holds 6% as a general partnership interest in Moorgate Scottish Limited Partnership (SLP) with Whitbread Pension Trustees holding the balance as a limited partner. Moorgate SLP holds a 67.8% investment in a further partnership, Farringdon Scottish Partnership (SP) which was established by the Company to hold property assets. The remaining 32.2% interest in Farringdon SP, is owned by the Company. The partnerships were set up in 2009/10 as part of a transaction with Whitbread Pension Trustees. Further details can be found in Note 30 of the Whitbread PLC consolidated financial statements.

Shares in Whitbread Group PLC are held directly by Whitbread PLC. Shares in the other subsidiaries are held directly or indirectly by Whitbread Group PLC or its subsidiaries. All principal subsidiary undertakings have the same year-end as Whitbread PLC, with the exception of Yueda Costa (Shanghai) Food & Beverage Management Company Limited which has a year-end of 31 December as required by Chinese legislation. The companies listed above are those which materially affect the amount of profit and the assets of the Group.

6 Debtors

Amounts falling due within one year	2014 £m	2013 £m
Amounts owed by subsidiary undertakings	74.9	132.5
	74.9	132.5

7 Creditors

Amounts falling due within one year	2014 £m	2013 £m
Unclaimed dividends	6.9	6.8
Corporation tax payable	1.0	1.9
	7.9	8.7

8 Share capital

Allotted, called up and fully paid ordinary shares of 76.80p each (2013: 76.80p each)	million	£m
At 1 March 2012	192.0	147.5
Issued	0.2	0.2
Issued in lieu of dividends:		
2011/12 final	0.6	0.4
2012/13 interim	0.2	0.2
At 28 February 2013	193.0	148.3
Issued	0.2	0.2
Issued in lieu of dividends:		
2012/13 final	1.0	0.8
2013/14 interim	0.5	0.3
At 27 February 2014	194.7	149.6

At the 2013 Annual General Meeting, the Company was authorised to purchase up to 17.9m of its own shares on the open market.

During the year, no ordinary shares were acquired (2012/13: nil). No shares were cancelled in the year (2012/13: nil). The remainder are being held in the treasury reserve (Note 9).

During the year, options over 0.2m ordinary shares, fully paid, were exercised by employees under the terms of various share option schemes (2012/13: 0.2m).

Shareholders were offered a scrip alternative to the 2012/13 cash final dividend of 37.90p and to the 2013/14 cash interim dividend of 21.80p. Ordinary shares issued in respect of this totalled 1,482,215. The issue of shares in lieu of cash dividends is treated as a bonus issue, with the nominal value of the shares being charged against the share premium account.

Preference shares

Allotted, called up and fully paid shares of 1p each	B shares		C shares	
	million	£m	million	£m
At 1 March 2012, 28 February 2013 and 27 February 2014	2.0	—	1.9	—

At 27 February 2014 there were outstanding options for employees to purchase up to 1.1m (2013: 1.1m) ordinary shares of 76.80 pence each between 2013 and 2018 at prices between £7.28 and £27.46 per share (2013: between 2012 and 2017 at prices between £7.28 and £19.14 per share).



Notes to the accounts

At 27 February 2014

9 Shareholders' funds

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Treasury shares £m	Total £m
At 1 March 2012	147.5	53.7	12.3	2,442.7	(206.6)	2,449.6
Ordinary shares issued	0.2	2.0	—	—	—	2.2
Transfer of shares	—	—	—	(5.1)	5.1	—
Scrip dividends	0.6	(0.6)	—	16.7	—	16.7
Profit for the financial year	—	—	—	5.9	—	5.9
Equity dividends	—	—	—	(94.5)	—	(94.5)
At 28 February 2013	148.3	55.1	12.3	2,365.7	(201.5)	2,379.9
Ordinary shares issued	0.2	2.2	—	—	—	2.4
Transfer of shares	—	—	—	(6.8)	6.8	—
Scrip dividends	1.1	(1.1)	—	44.5	—	44.5
Profit for the financial year	—	—	—	3.2	—	3.2
Equity dividends	—	—	—	(106.9)	—	(106.9)
At 27 February 2014	149.6	56.2	12.3	2,299.7	(194.7)	2,323.1

The movement in treasury shares during the year is set out in the table below:

	Treasury shares held by Whitbread PLC	
	million	£m
At 28 February 2013	13.8	201.5
Transferred during the year	(0.5)	(6.8)
At 27 February 2014	13.3	194.7

10 Related parties

The Company has taken advantage of the exemption given in FRS 8 not to disclose transactions with other Group companies that are wholly owned.

11 Contingent liabilities

Whitbread PLC is a member of Whitbread Group PLC VAT group. All members are jointly and severally liable for the liability. At the balance sheet date the Group liability stood at £27.5m (2013: £23.2m).



Shareholder information

- 144 Shareholder services
- 146 Glossary
- 148 Our charities



Shareholder services

Contact details

Registrars

Capita Asset Services
Whitbread Share Register
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

The website address is
www.capitaassetservices.com

For enquiries regarding your shareholding please telephone 0844 855 2327 from the UK and +44 (0)20 8639 3400 from outside the UK. Alternatively you can email: whitbread@capita.co.uk

You can also manage your shareholding by visiting www.whitbread-shares.com. This is a secure online site where you can:

- sign up to receive shareholder information by emails instead of post;
- buy and sell shares via the Capita Share Dealing Service¹;
- view your holding and get an indicative valuation; and
- change your personal details.

Please have your investor code to hand which can be found on any of the following documentation: share certificate; dividend voucher; or proxy card.

Please ensure that you advise Capita promptly of any change of address.

Share Dealing Service¹

Capita Share Dealing Services, telephone 0871 664 0446 (calls cost 10p per minute plus network extras, lines are open 8am to 4.30pm, Monday to Friday) www.capitadeal.com¹

¹ These details have been provided for information only and any action you take is at your own risk. If you are in any doubt about what action to take, please consult your own financial adviser. Should you not wish to use these services you could find a broker in your local area, on the internet or enquire about share dealing at any high street bank or building society. The availability of this service should not be taken as a recommendation to deal.

Registered office

Whitbread PLC
Whitbread Court
Houghton Hall Business Park
Porz Avenue
Dunstable
Bedfordshire
LU5 5XE

General Counsel and Company Secretary

Simon Barratt

Dividend Reinvestment Plan

We have decided to end the Scrip Dividend Scheme and, as an alternative, to offer you the chance to join a new Dividend Reinvestment Plan (the 'DRIP'). To reinvest your dividend you will need to sign up for the DRIP. The Terms and Conditions of the DRIP and a Shareholder Dividend Form are available on the Company's website or can be requested from Capita Asset Services.

Dividend payments 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 please ring the registrars on +44 (0)844 855 2327.

Dividend history

2013/14	68.80p
2012/13	57.40p
2011/12	51.25p
2010/11	44.50p
2009/10	38.00p

Dividend diary 2014/15

Ex dividend date for final dividend	28 May 2014
Record date for final dividend	30 May 2014
DRIP election date	16 June 2014
Payment of final dividend	4 July 2014
Ex dividend date for interim dividend	4 December 2014
Record date for interim dividend	5 December 2014
Payment of interim dividend	9 January 2015

Financial reporting calendar

Dates subject to confirmation

Half year-end	28 August 2014
Announcement of half-year results	21 October 2014
End of financial year	26 February 2015

Capital gains tax

For further information on:

- the market value of shares in the Company as at 31 March 1982;
- the reduction of Capital on 10 May 2001; and
- the special dividend and share consolidation in May 2005,

or if you require any further information on capital gains tax allocations, please refer to the investors' section of the Company's website www.whitbread.co.uk

Unsolicited mail

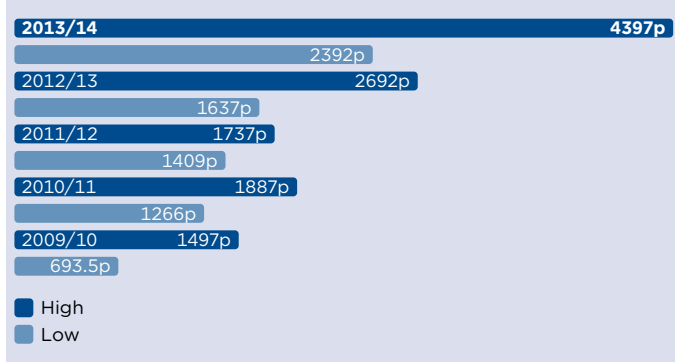
We are aware that some shareholders have had occasion to complain of the use, by outside organisations, of information obtained from Whitbread's share register. Whitbread, like other companies, cannot by law refuse to supply such information provided that the organisation concerned pays the appropriate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

If you are a resident in the UK and wish to stop receiving unsolicited mail then you should register with the Mailing Preference Service, telephone: 0845 703 4599 or you may prefer to register online: www.mpsonline.org.uk

Analysis of shares at 27 February 2014

Band	Number of holders	% of holders	Number of shares	% of share capital
1-100	24,130	51.45	880,30	40.45
101-500	15,929	33.97	3,841,630	1.97
501-1,000	3,646	7.77	2,581,347	1.33
1,001-5,000	2,273	4.85	4,227,144	2.17
5,001-10,000	223	0.48	1,585,970	0.81
10,001-50,000	347	0.74	8,260,570	4.24
50,001-100,000	104	0.22	7,334,788	3.77
100,001-500,000	176	0.38	35,820,452	18.39
500,001-1,000,000	30	0.06	20,383,258	10.46
1,000,001-5,000,000	34	0.07	63,715,046	32.71
5,000,001+	5	0.01	46,155,329	23.70
Total	46,897	100.00	194,785,838	100.00

Share price history



Annual General Meeting 2014

The 2014 AGM will be held at 2pm on Tuesday 17 June 2014 at Church House Conference Centre, Dean's Yard, Westminster, London SW1P 3NZ.

Shareholder FAQs

Where can I find information about B and C shares?

As outlined in the original Circulars, the Company made two separate purchase offers for the B and C shares. There will be no further purchase offers. The Company does have the right to convert the B and C shares to ordinary shares but there is no current intention to do so. The B and C shares will continue to attract an annual dividend payment.

How can I find the current share price?

It is easy to keep up to date with the current share price at the Company's website www.whitbread.co.uk

I have lost my share certificate, how can I get a replacement?

If you have lost your certificate please contact the Company registrars, Capita Asset Services, on the shareholder helpline (0844 855 2327). They will be able to assist you in arranging a replacement.

Warning to shareholders – boiler room scams

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive, and a 2006 survey by the Financial Conduct Authority (FCA) reported that the average amount lost by investors is around £20,000, with around £200m lost in the UK each year.

It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be wary of unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:

- make sure you get the correct name of the person or organisation;
- check that they are properly authorised by the FCA before getting involved by visiting www.fca.org.uk and contact the firm using the details on the register;
- report the matter to the FCA either by calling 0800 111 6768 or visiting www.fca.org.uk/scams;
- if the calls persist, hang up; and
- **REMEMBER** if it sounds too good to be true, it probably is!

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme (FSCS) if things go wrong. The FCA can be contacted by completing an online form at www.fca.org.uk/scams or you can call the FCA Consumer Helpline on 0800 111 6768 or Action Fraud on 0300 123 2040.

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the FCA website, www.fca.org.uk/consumer



Glossary

Average Room Rate (ARR)

Hotel accommodation income divided by the number of rooms occupied by guests.

Barista

An individual with specific training to expertly prepare and serve hand-made espresso-based coffees.

Compound Annual Growth Rate (CAGR)

The year-on-year growth rate of an annualised gain over a specified number of years.

Co-location

A site which has both a Premier Inn and a pub restaurant in one location where the pub restaurant is not a Whitbread-owned brand or business.

Costa@Home

Costa have teamed up with Tassimo to bring a range of Costa At Home drinks for customers to enjoy at home.

Costa for schools

This is a comprehensive human and physical geography resource for students aged 11 to 14. It explores coffee-growing communities around the world and how the coffee trade affects their lives.

Directors' forum

The group of Whitbread's 40 senior leaders.

Dynamic pricing system

The system which we deploy to vary our prices according to demand levels and room availability within certain prescribed limits.

Earnings

Profit after tax which is attributable to the parent shareholders.

Earnings per share (EPS)

Earnings divided by the weighted average of ordinary shares in issue during the year after deducting treasury shares and shares held by an independently managed share ownership trust ('ESOT').

EBITDAR

Earnings before interest, tax, depreciation, amortisation and rent.

Equity stores

Costa stores leased or owned by Whitbread, as opposed to those leased or operated under franchise agreements.

IAS

International Accounting Standards.

IFRS

International Financial Reporting Standards.

Income before fixed costs (IBFC)

Hotels & Restaurants' operating profit before directly attributable fixed costs (such as rent, rates, insurance, etc.), head office and central costs. To obtain the IBFC margin IBFC is divided by sales.

Income after fixed costs (IAFC)

Hotels & Restaurants' operating profit after directly attributable fixed costs but before allocating head office and central costs. To obtain the IAFC margin, IAFC is divided by sales.

Joint sites

A site which has both a Premier Inn and Whitbread-owned pub restaurant in one location.

Like for like sales

Period over period change in total sales, less sales generated by businesses acquired or disposed of and retail outlets opened or closed during the current year and the previous year.

Net Guest Score

Based on the fundamental perspective that every company's customers can be divided into three categories when completing a survey with ten score choices: Promoters (score nine to ten), Passives (score seven to eight), and Detractors (score zero to six). The net guest score can be calculated by taking the percentage of customers who are Promoters and subtract the percentage who are Detractors.

Occupancy

Number of hotel bedrooms occupied by guests expressed as a percentage of the number of bedrooms available in the period.

Operating margin

Operating profit expressed as a percentage of total revenue.

**Profit per outlet**

Operating profit (after allocation of overheads but before exceptional items) divided by the average of the opening and closing number of outlets.

RevPAR/yield

Revenue per available room, also known as 'yield', this hotel measure is achieved by multiplying the ARR by the occupancy rate. This measure ignores non-room income such as food and beverage.

Returns, Return on Capital Employed or ROCE

Dividing the underlying profit before interest and tax for the year by net assets at the balance sheet date, adding back debt, taxation liabilities and the pension deficit.

Solus sites

Consist of standalone Premier Inn hotels with an integrated restaurant (e.g. County Hall) or Premier Inn hotels with a third-party restaurant.

System sales

Retail sales from Costa outlets irrespective of whether it is an equity or a franchise store.

Tassimo

The Tassimo Hot Beverage System is a consumer single-serve coffee system that prepares one-cup servings of espresso, regular coffee, tea, hot chocolate and various other coffee drinks.

Total Shareholder Return (TSR)

The total return of a stock to an investor (capital gain plus dividends).

Turnover per outlet

Turnover in a period divided by the average of opening and closing outlets.

Underlying basic EPS

Underlying profit attributable to the parent shareholders divided by the basic weighted average number of ordinary shares.

Underlying profit

Underlying profit excluding amortisation of acquired intangibles, exceptional items and the impact of the pension finance cost as accounted for under IAS 19.

Our charities



The Costa Foundation

We don't just make coffee; we make a difference

We're committed to looking after coffee-growers and that's why we established the Costa Foundation in 2007. Originally it worked under the registration of Charities Trust, an independently registered charity with the UK Charity Commission. In 2012 the Costa Foundation registered as a stand-alone charity.

The Costa Foundation was set up to give something back to coffee-growing communities and since 2008, 40 schools or school projects have been completed in Colombia, Costa Rica, Ethiopia, Guatemala, Peru, Uganda and Vietnam. At the date of this Report, six projects are still under construction and a further six projects have been approved and are at the planning stage with committed funding in place. This brings the support from the Costa Foundation to 52 communities in eight countries.

The Costa Foundation's objectives are the relief of poverty and the advancement of education, health and environmental protection within coffee-growing communities and surrounding areas.

The money raised through the Costa Foundation has given thousands of children access to education and ensured that the people who grow coffee receive the long-term support needed to ensure sustainable and improved futures.

In 2013/14 alone we raised over £1.5 million as a result of dedicated fundraising and generous donations. We have an aspiration to provide educational facilities to 50,000 children.

Help us to continue the good work by donating: <http://www.costafoundation.com/donations>



Registered charity number 1147400.



Great Ormond Street Hospital Children's Charity

Raise a smile and help a child

In May 2012, Whitbread Hotels & Restaurants chose Great Ormond Street Hospital Children's Charity as its long-term charity partner.

Each year, Great Ormond Street Hospital responds to over 220,000 patient visits from children all over the UK who are often suffering from rare, complex and life-threatening conditions.

The charity needs to raise at least £50 million a year to help support the hospital's work and the very special children it cares for. The hospital is in the process of redeveloping and replacing some of its oldest clinical buildings so that families can benefit from world class care in 21st century facilities and have more space to be together at the bedside.

In June 2013, we announced that Whitbread Hotels & Restaurants had pledged £7.5 million towards the construction of a new clinical building at Great Ormond Street Hospital which is to be called The Premier Inn Clinical Building. The building will provide much needed new in-patient wards, more operating theatres and a recovery unit. It will contain a new surgery centre, respiratory ward and a specialist ward for children with severe forms of arthritis, skin conditions or infectious diseases.

At the date of this Report we have raised over £2.2 million towards the £7.5 million target.

Help us to continue the good work by donating: <http://www.gosh.org/donate/single-donation-form/?reasonid=219>



Registered charity number 235825.





WHITBREAD PLC

Whitbread PLC
Whitbread Court
Houghton Hall Business Park
Porz Avenue
Dunstable
Bedfordshire
LU5 5XE

www.whitbread.co.uk/investors

