

This document contains detailed financial and statutory information and constitutes Whitbread PLC's annual report and accounts for 1999/00.

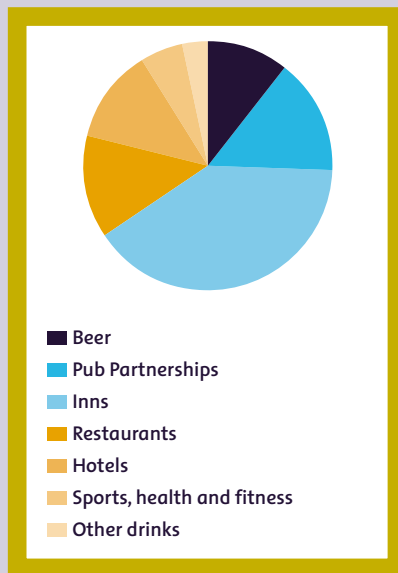
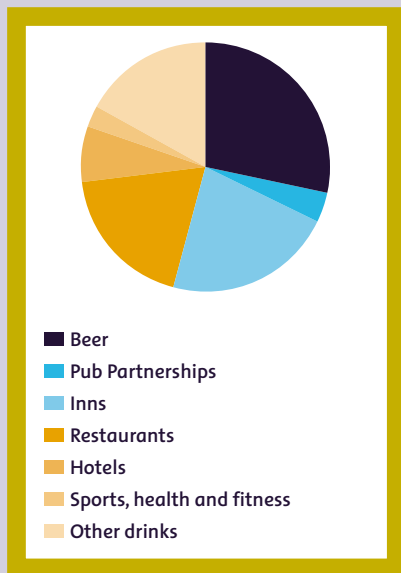
The company also publishes a shorter document, the Whitbread annual review, which aims to give private shareholders a good overview of the company's results and activities.

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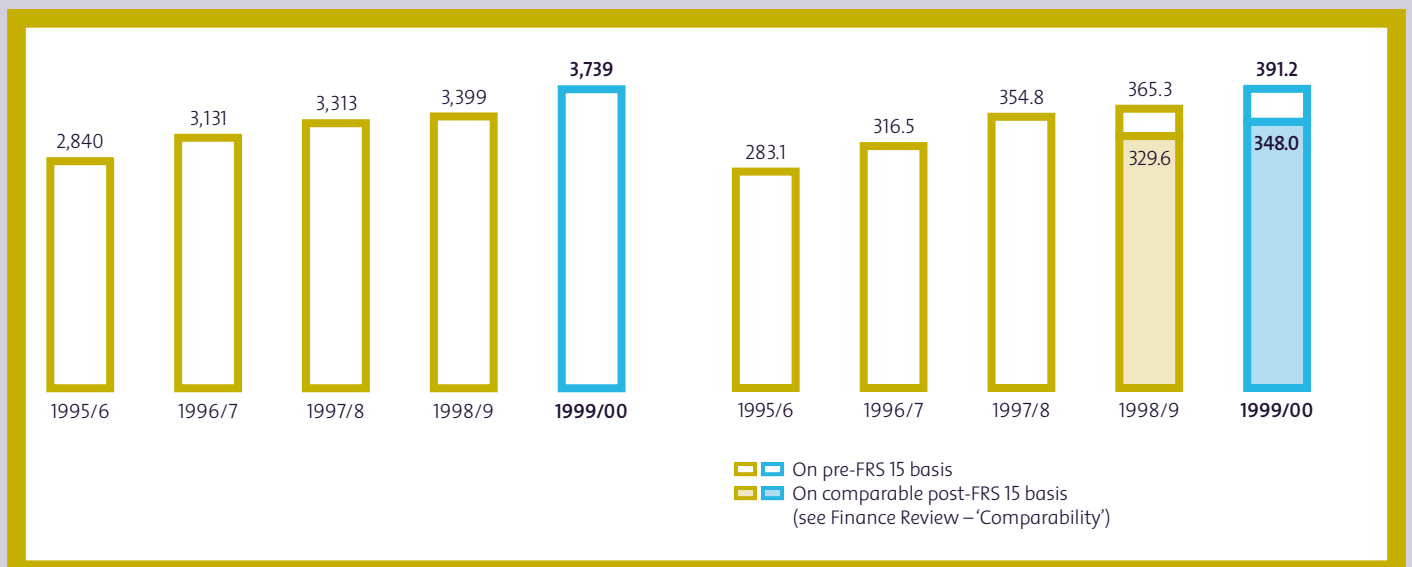
Segmental turnover analysis 1999/00

Segmental profit analysis 1999/00



Turnover including joint ventures (£m)

Profit before exceptional items and tax (£m)

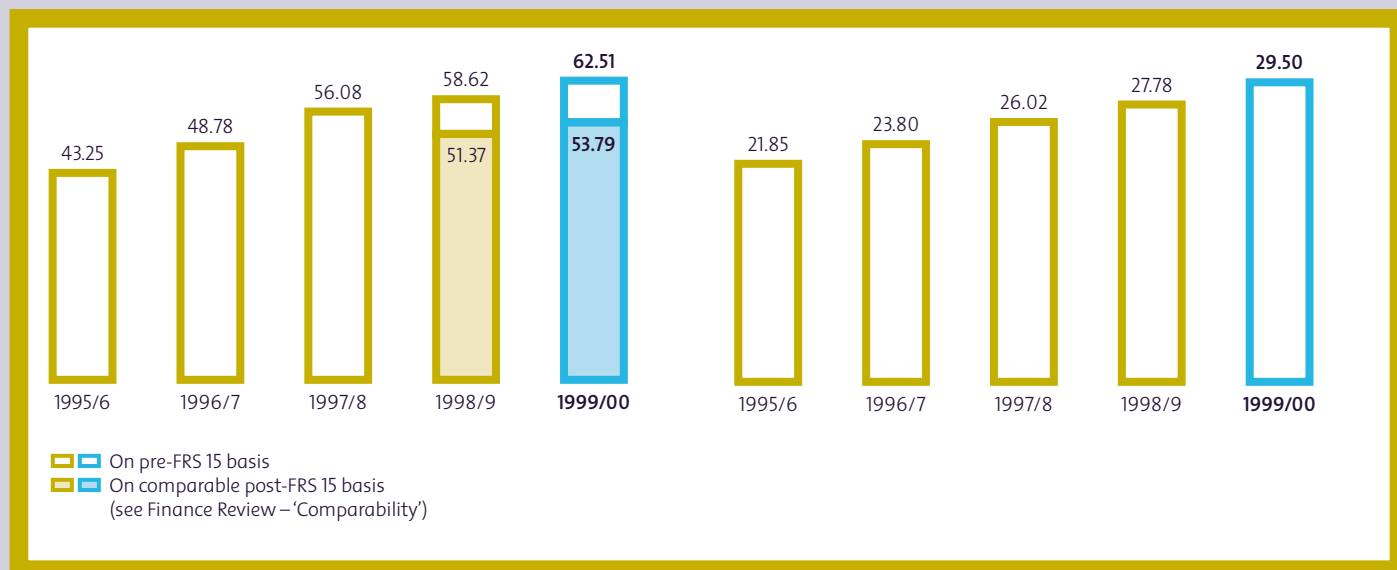


12%

Second half turnover grew 12.9% (+2.4% in the first half) and pre-FRS 15 profit grew 12.4% (+3.0% in the first half).

Adjusted earnings per share (pence)

Ordinary dividends per share (pence)



For the year as a whole, adjusted turnover grew 7.5% and pre-FRS 15 profit before exceptional items and tax (see Finance review – Comparability) was ahead by 7.1% despite an additional £12.9 million charge for pensions. Adjusted earnings per share (post-FRS 15) were up 4.7% at 53.79 pence. The results demonstrated the appeal of Whitbread's brands as consumer confidence and spending improved in the course of the year.

As expected, growth was stronger in the second half year than in the first. Second half adjusted turnover grew 12.9% (+2.4% in the first half) and pre-FRS 15 profit before exceptional items and tax was up 12.4% (+3.0% in the first half).

These second half trends were particularly marked in Sports, health and fitness, Whitbread Hotels and Whitbread Inns where Brewers Fayre achieved 5% like-for-like sales growth and high street branded pub sales were ahead 3.4% on a like-for-like basis.

In addition, the Whitbread Beer Company grew its market share to 16% and Whitbread Pub Partnerships' profit per pub growth exceeded 20%.

Good progress was made towards Whitbread's objective of becoming the UK's leading leisure company. The acquisition of Swallow Group plc in January will enable us to significantly increase the distribution of the Marriott brand in the United Kingdom. The acquired hotels are trading well and the conversion programme is proceeding to plan.

The addition of a further 26 hotels brought the Travel Inn network to 233 hotels. Taken together, the expansion of the Marriott and Travel Inn brands has earned Whitbread a strong second place in the UK hotel market with over 300 hotels. Including the entire Travel Inn network, hotels represent about 24% of annual Whitbread group operating profits.

Whitbread is the leader in the UK health and fitness market with the David Lloyd Leisure, Marriott and Swallow clubs. David Lloyd Leisure added nine new clubs during the year and, coupled with the acquisition of Racquets & Healthtrack in September, this meant that the total number of clubs reached 43 – doubling the number of clubs in the last two years.

As in the previous year, capital expenditure was focused on hotels, health and fitness and selected segments of the restaurant and pub markets. This reshaping of the company by expanding in areas with growth potential and disposing of operations with limited prospects has been taking place for several years and is expected to continue.

Improved trading conditions have continued into our new financial year which has started well. Coupled with the action which has been taken to increase the scale and enhance the appeal of our brands, this means we are optimistic about our prospects.

Corporate Governance

Once again we have devoted a separate section of this report to matters of corporate governance. The company is committed to high standards in this area and keeps fully up-to-date with both formal requirements and best practice.

AGM

The Annual General Meeting will take place on Tuesday 20 June 2000 at Chiswell Street in London and I hope to see many of you there.

Community Investment Programme

Having been a founder member of the PerCent Club in 1986, it was fitting that this year we were amongst the first companies to be awarded the PerCent Club Millennium Standard. Whitbread's award winning programme was established in 1981 when the board recognised the need for government and the public and private sectors to work together to overcome the many problems that exist in our society.

Our Education Partnership team provides real value to the education of young people and to the development of teachers – over 1,000 spent time in our company this year – but it is also helping our recruitment drive, raising awareness of the breadth of our business and providing opportunities for staff development.

Personal and team development is also enabled through the increasingly strong culture of volunteering throughout our various businesses. There are now 50 employee volunteering committees addressing the needs of their local communities, and individual awards through our WAVE (Whitbread Awards for Volunteer Effort) scheme continue to increase.

Our team of regional community affairs directors ensures our Programme is able to address local issues such as crime prevention, youth exclusion and homelessness whilst also assisting small business development and helping with arts and environmental projects. Our CARE (Community Action by Recycling Equipment) initiative has now been extended to all our businesses. Whitbread Hotels, who piloted the initiative, this year donated over 22,000 items to 158 different community organisations.

Board

Martin Broughton has decided not to seek re-election and will retire as a director after this year's AGM. I would like to thank him for his invaluable contribution over the last seven years.

Sir John Banham will succeed me as chairman of Whitbread after this year's Annual General Meeting. He will find a business with strong brands, an able management team and hard working people who care about looking after their customers. I should like to thank everyone who has helped to make my period as chairman so stimulating and rewarding.

Dividend

A final dividend of 21.85 pence per share is proposed which will make the total dividend for the year 29.50 pence. This will be paid on 14 July 2000 to shareholders on the register at close of business on 19 May 2000.



Sir Michael Angus Chairman, 3 May 2000

Our brands are operated through seven business units

David Lloyd Leisure operates private health and fitness clubs in the UK and Curzon The Gym.

Sports, health and fitness	Outlets
David Lloyd Leisure clubs	43
Curzon The Gym	12

Inns operates 1,639 managed pubs and pub restaurants, including Brewers Fayre and Hogshead. Around 700 of Whitbread Inns' pubs are non-branded Community pubs – the local firmly focused on the needs of the surrounding community.

Inns	Outlets
Brewers Fayre	390
Hogshead	150
Wayside Inns	64
Family Inns	43

Pub Partnerships manages the company's leased pub operation.

Pub Partnerships	Outlets
Pubs	1,717

Restaurants has a portfolio of restaurant brands, comprising Beefeater Restaurant & Pub, Costa, Pelican (including Bella Pasta, Café Rouge, Dôme, Mamma Amalfi), T.G.I. Friday's, Pizza Hut and German restaurants – Churrasco and Tascaria Maredo.

Restaurants	Outlets
Beefeater	258
Bella Pasta	73
Costa	193
Café Rouge	102
Dôme	19
Mamma Amalfi	11
T.G.I. Friday's	32
Pizza Hut (50/50 joint venture with Tricon):	
Full Service restaurants	290
Delivery units	118
Churrasco	23
Tascaria Maredo	39

Beer Company is an integrated beer manufacturing, distribution, sales and marketing business for a number of famous brands such as Stella Artois, Murphy's Irish Stout, Boddingtons, Heineken, Wadworth 6X and Labatt ICE.

Hotel Company manages the company's hotel operations which consist of four star Marriott hotels and Travel Inn, the UK's largest budget hotel chain.

The **Swallow** chain of hotels was acquired in January 2000.

Hotel Company	Outlets
Marriott Hotels	26
Courtyard by Marriott	10
Swallow	38
Travel Inn*	233

*includes hotels operated by other Whitbread businesses

First Quench is the 50/50 joint venture off-licence business with Allied Domecq. Its results are reported in 'Other Drinks', which also includes the results of our share in Britannia Soft Drinks.

First Quench	Outlets
Wine Specialists (Wine Rack/Bottoms Up)	307
Wine Shops (Thresher Wine Shop/Victoria Wine)	1,265
Drinks Retailing (Drinks Cabin/Haddows/Huttons)	949

Summary

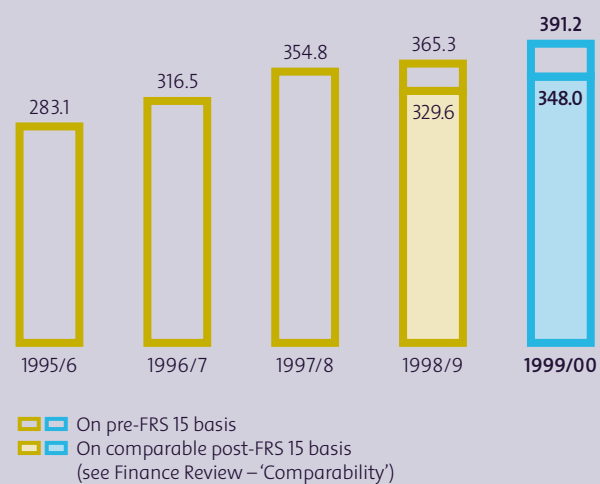
Four particular factors have affected the year over year comparability of this year's results. These factors are:

- the implementation of a new Financial Reporting Standard (FRS 15 – Tangible Fixed Assets);
- the merging of our Thresher off-licence business with the off-licence business of Allied Domecq PLC, to form First Quench Retailing Limited, and the implementation of FRS 9 (Associates and Joint Ventures). Both of these occurred in 1998/9;
- the results of the three yearly valuation as at March 1999 of our principal group pension scheme; and
- 1999/00 was a 53 week period whereas 1998/9 was a 52 week period.

These factors are more fully explained in the Finance Review. In addition, inter-divisional pricing for the supply of beer and related services was rebased from the beginning of 1999/00. The impact of this change on divisional profits is summarised in note 2 to the accounts.

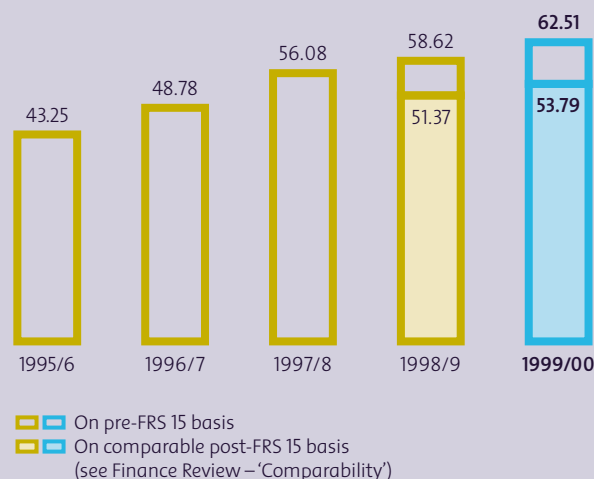
Turnover, including joint ventures, increased by 10% to £3,739 million. Under the terms of FRS 9, however, there is some double-counting of sales within this figure. It includes sales of the group and our share of the sales of our joint ventures, without the elimination of sales from Whitbread to the joint ventures and vice versa. If these double-counted sales are eliminated, adjusted turnover increased by 7.5%.

Profit before exceptional items and tax (£m)



Profit before exceptional items and tax grew by 7.1% on a pre-FRS 15 basis. On the reported post-FRS 15 basis, profit before exceptional items and tax grew by 1.8%. On a comparable post-FRS 15 basis, profit growth was 5.6%. This result was achieved after having absorbed additional pension costs of £12.9 million, following the three yearly valuation of the pension fund. The profit contribution from each business is described in the Operating Review, which follows.

Adjusted basic earnings per share (pence)



Adjusted basic earnings per share, excluding exceptional items and on a comparable post-FRS 15 basis, increased by 4.7% to 53.79 pence. The proposed final dividend is 21.85 pence per share, a 6.6% increase on last year. The full year's dividend per share, interim plus final, is up by 6.2% to 29.50 pence per share.

Two significant acquisitions were completed during the year (see note 28 to the accounts). The Swallow Group plc was acquired on 6 January 2000; its hotels are being integrated into our existing hotel business. Racquets & Healthtrack Group Limited was acquired on 30 September 1999 and is being integrated into our Sports, health and fitness business.

Capital expenditure (£m)

	1999/00	1998/9
Beer	55	47
Pub Partnerships	13	14
Inns	102	120
Restaurants	64	76
Hotels	58	79
Sports, health and fitness	77	96
Other	3	11
	372	443

£372 million was invested in existing businesses in the year. This sum includes expenditure of £190 million on acquiring and developing new retail sites. Most of the new site expenditure was allocated to David Lloyd Leisure, Travel Inn, Brewers Fayre, Costa and T.G.I. Friday's.

Cash outflow before financing was £675 million. This includes the £632 million cost of businesses acquired in the year. After adjusting for this, for the expenditure on acquiring and developing new sites (see above) and for businesses sold, the underlying cash inflow was £136 million.

Operating review

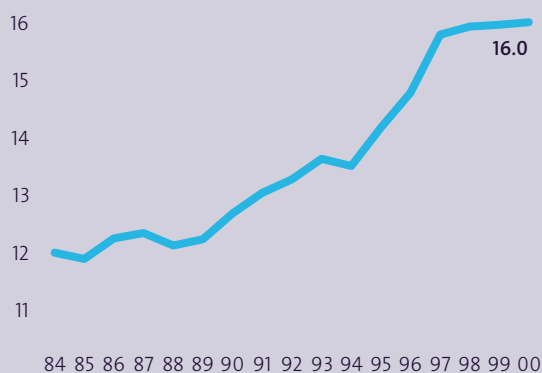
Operating profit referred to in respect of each business is stated before exceptional items and on a comparable post-FRS 15 basis (see notes 1 and 4 to the accounts and the Finance Review – ‘Comparability’).

Like-for-like sales figures exclude sales of retail outlets opened for the first time or disposed of during 1998/9 or 1999/00 and also the 53rd week in 1999/00.

Beer

The Whitbread Beer Company once again grew operating profit ahead of sales, prior to an adjustment in the transfer price of beer and related services to other Whitbread businesses.

Volume share of UK beer market (%)



Source: BLRA sales volume survey

Total sales volumes were up by 1.1% against a market showing a 0.3% decline. On-trade volumes were down 1.4% in a market down 3.0% and take-home volumes grew 7.6% in line with the market. Total market share grew from 15.8% to 16% during the year.

The performance of Stella Artois was outstanding. Volumes for the year increased 18% and passed the two million barrel mark for the first time. Stella Artois is now the fifth largest grocery brand in the country. Only Coca Cola, Nescafé, Walkers and Persil have larger sales by value.

Boddingtons sales grew 7.3% which was ahead of the ale market and gave the brand a 4.6% share. Heineken Cold Filtered grew 1.2%. Source, the Beer Company’s fruit flavoured vodka drink, doubled its volume.

Further major productivity gains were made in manufacturing while in distribution costs per ton of beer delivered fell by 5% in real terms.

Pub Partnerships

Operating profit increased substantially despite the fact that there was an average of 109 fewer pubs trading (6% of the total). Profit per pub increased by over 20% demonstrating that a well run leased pub estate can be a growth business.

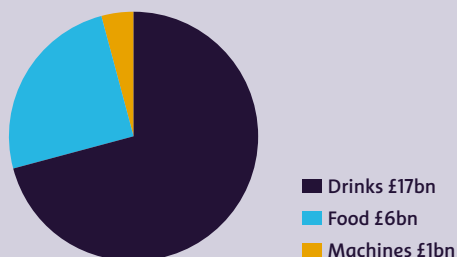
In addition, beer volumes outperformed an on-trade beer market down 3.0% with a like-for-like decline for Pub Partnerships of only 0.6% in the year. Cash flow of £56 million was generated bringing the total cash contribution from this business to £370 million over the last five years.

Over 90% of the 1,717 pubs are on 20 year leases providing the incentive for strong, long-term working relationships between Pub Partnerships and their lessees. £12 million was invested in 135 capital developments. 151 lessees were able to assign their leases and realise average premiums of £62,000.

Inns

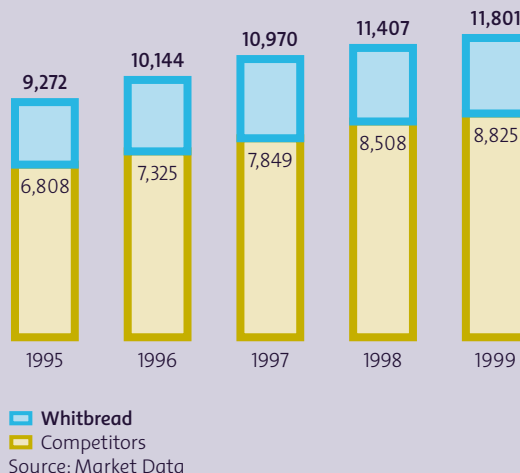
After a slow start to the year Whitbread Inns grew sales by 4.9% and operating profit by 7.2%. Average weekly sales per pub grew 6.4%.

The pubs and bars market is big



Source: Market Data

Whitbread consistently leads the market in average weekly turnover per pub (£)



Source: Market Data

Divisional performance

Beer Company

Turnover
£1,116.0m +5.9%

Operating profit before transfer price adjustment
£57.1m +11%

Operating profit after transfer price adjustment
£46.5m -9.9%

Pub Partnerships

Turnover
£146.9m +1.5%

Operating profit
£64.3m +18%

Inns

Turnover
£859.4m +4.9%

Operating profit
£173.5m +7.2%

Like-for-like sales were marginally positive after a 3.4% decline in the previous year. Inns' focus on food and high street pubs meant Brewers Fayre grew like-for-like sales by 2.3% and high street brands grew 25% in total and 2.1% on a like-for-like basis.

Brewers Fayre total sales were up 8.9% as new menu developments, improvements in service and better facilities for families with children were introduced. 18 new Brewers Fayres were opened bringing the total to 390.

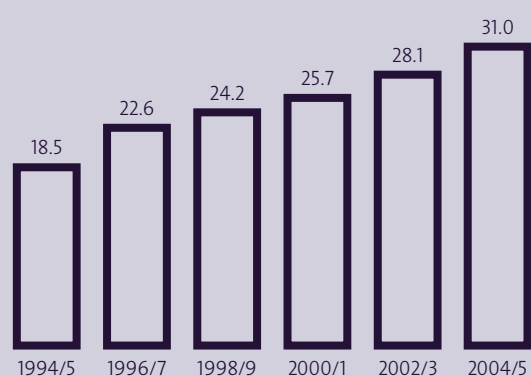
Hogshead had a highly successful year in the face of intense competition on the high street. Drinks margins were maintained despite high levels of competitive discounting. Average weekly sales grew by more than 10%. 16 new Hogsheads were opened during the year bringing the total to 150.

Casa, the cafe-bar concept developed by Whitbread Inns, achieved impressive sales growth from its six sites and a further six will be added in the current year. A number of other new concepts aimed at improving performance in unbranded pubs produced promising results and will be expanded to full-scale trial. In addition, **Life Cafe**, a city-centre bar, restaurant and late night concept, was acquired in November and will be developed on further sites during the year.

Restaurants

Operating profit returned to growth after a negative performance in the first half of the year.

The eating-out market is large and is growing (£bn)



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

Beefeater sales were up 1.2% and like-for-like sales for the year were down 0.7%. In March 2000, a completely new menu was launched featuring mainly modern British food and offering better value for money.

Pizza Hut grew sales by 7.8% with like-for-like sales slightly positive. This was in a pizza market which declined 5.2% in the first half of the year and was in only marginal growth in the second. A new pizza product, 'The Edge', was launched in March 2000 and has proved extremely popular.

T.G.I. Friday's sales grew 13% although like-for-like sales were negative. Three new stores were opened bringing the total to 32 with a further seven under development. The first Friday's American Bar opened at Heathrow shortly after the end of the year.

Costa grew sales by 54% and like-for-like sales by 6.1%. 63 new units were opened taking the total to 193. In addition to its high street stores, Costa is now expanding at high profile sites such as the Millennium Dome, the BA London Eye and Abbey National branches.

Pelican, which includes the Bella Pasta, Café Rouge, Dôme and Mamma Amalfi brands, grew sales by 1.3% although like-for-like sales for the group remained slightly negative. The group ended the year with 220 restaurants.

Whitbread Restaurants Germany grew sales in local currency by 4.0% in total and 2.4% on a like-for-like basis.

Hotels

This was another very strong year for the Whitbread Hotel Company. Total hotel profit, including the contribution of Travel Inn which is largely reported through other businesses, was around £100 million. With over 300 hotels, Whitbread is in a strong second place to the UK market leader.

Marriott occupancy was maintained at 76% and achieved room rates rose 6%. The brand grew its yield premium to the market to 13.5%, 10.1% in the provinces and 23.7% in London. Guest satisfaction scores continued to improve as did the brand's awareness and popularity amongst business users as measured by the Annual UK Hotel Guest Survey.

Divisional performance

Restaurants

Turnover
£733.8m +5.9%

Operating profit
£56.8m +2.5%

Hotels

Turnover
£287.5m +29%

Operating profit
£53.7m +22%

The Swallow hotels acquired in January will significantly increase the scale and distribution of the Marriott brand as they are converted over the next two years. They include hotels in Central London and gateway cities such as Birmingham, Edinburgh, Manchester and Liverpool. The application of Marriott standards and systems along with access to the worldwide reservation system is expected to improve the yield of the acquired hotels.

In addition to expanding its brands, the Whitbread Hotel Company continued to focus on improving the returns from its operations. Project Infinity is a new initiative to drive profit improvement from sales growth, cost efficiencies and investment-led benefits in Marriott hotels. Nine hotels have so far been reviewed with promising results.

Travel Inn comparable occupancy was 86% throughout the network. The brand added 26 units to bring the total to 233 with 12,415 rooms. A further 17 hotels with 2,500 rooms are already in the pipeline for the current year. Travel Inn is now the UK's largest branded hotel network. A new brand identity helped differentiate Travel Inn from its competitors and improved awareness.

Sports, health and fitness

David Lloyd Leisure confirmed its leadership of the UK health and fitness market with significant growth in membership. Because new clubs take three years to reach maturity, growth in operating profit slightly lagged growth in sales.

	Members	Clubs
1 David Lloyd Leisure (incl. Curzon The Gym)	190,000	55
Marriott (incl. Swallow)	45,000	51
Whitbread total	235,000	106
2 Cannons	148,000	54
3 Holmes Place	130,000	53
4 Esporta	112,000	23
5 Fitness First	112,000	58
6 Hilton/Livingwell	88,000	69
7 Kunick/Leisure Connection	75,000	74
8 Granada	65,000	79
9 Greenalls	61,000	27
10 DC Leisure	51,000	45

Source: Market Data April 2000

Nine new David Lloyd clubs were added during the year and in September the Racquets & Healthtrack group of six clubs was acquired. The total number of clubs is now 43 with three under construction. There are some 190,000 members of David Lloyd clubs along with a further 45,000 in the clubs associated with Whitbread Hotels.

The two most important indicators of success in this business are mature clubs' sales and membership renewals. Mature clubs, defined as those trading for more than three years, increased sales by 7% and pre-FRS 15 operating profit by 12%. Membership renewal rates continued to exceed the industry average.

Other drinks

This segment comprises Whitbread's share of the profits from its joint venture in First Quench and its minority shareholding in Britannia Soft Drinks. Results from First Quench were clearly disappointing but action is being taken to improve the performance of this business.

Divisional performance

Sports, health and fitness

Turnover
£103.6m +33%

Operating profit
£23.0m +31%

Other drinks

Turnover
£656.7m +1.4%

Operating profit
£14.4m -23%

Finance review

Comparability

As previewed in the Summary section, four particular factors have affected the comparability of this year's results:

- The Financial Reporting Standard FRS 15 (Tangible Fixed Assets) has been adopted early. As explained in note 1 to the accounts, the figures for 1998/9 have been restated. A recent abstract issued by the Urgent Issues Task Force (Application of the transitional rules in FRS 15) limits the extent of the restatement. Specifically it does not permit restatement in respect of the equivalent depreciation charge for buildings. Had a full comparable restatement been permitted, the depreciation charge in 1998/9 would have been £12.1 million higher and profit would have been £12.1 million lower. Reference to a 'comparable post-FRS 15 basis' means that the comparable 1998/9 figure has been adjusted for this additional depreciation of buildings
- The merging of our Thresher off-licence business and that of Allied Domecq PLC, to form First Quench Retailing Limited, and the implementation of FRS 9 (Associates and Joint Ventures) has distorted turnover comparisons. Both of these occurred in 1998/9 and were referred to fully in last year's annual report. FRS 9 does not allow for the elimination of turnover between the group and its joint ventures in arriving at the headline 'Group and share of joint ventures' turnover. In addition, the 'Group' turnover figure for 1998/9 includes six months turnover of Thresher prior to its integration into First Quench but no turnover for First Quench
- The results of the 1999 three yearly valuation of our principal group pension scheme has increased the charge for pensions in 1999/00 by £12.9 million. This has depressed the profits of all our businesses for 1999/00
- 1999/00 was a 53 week period, whereas 1998/9 was a 52 week period. The extra week will have benefited both turnover and profit in 1999/00.

Group turnover

Group turnover, i.e. excluding our share of sales by joint ventures, increased by 0.3%. In 1998/9 group turnover included the sales of Thresher, until its transfer into First Quench, and subsequent sales by Whitbread to First Quench, whereas 1999/00 includes only sales by Whitbread to First Quench. If all sales relating to Thresher and First Quench are excluded from both years, comparable group turnover growth is 9.5%.

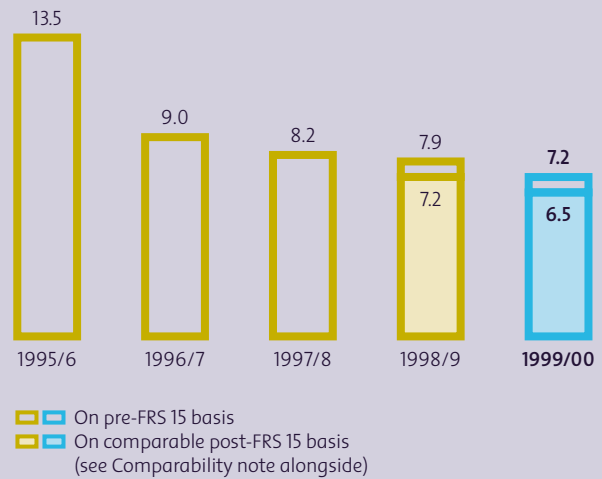
Operating profit

Reported operating profit before exceptional items grew by 4.1%. On a comparable post-FRS 15 basis, the growth in operating profit was 7.4%. This result reflects both the increased pension costs and the 53rd week. The contribution of each business is described in the preceding Operating Review.

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

EBITDA, which is not impacted by the adoption of FRS 15, grew by 8.3% to £573 million.

Interest cover (times covered)



Interest

Net interest increased by £9.9 million to £63.1 million. This increase reflects the higher net debt resulting from the business acquisitions described earlier and the capital expenditure programme. Net interest was covered 6.5 times by operating profit before exceptional items.

Pension fund valuation

The additional pension cost of £12.9 million arose as a consequence of the normal three yearly valuation of the pension fund. The previous valuation took place in 1996, before the withdrawal of the dividend tax credit for pension funds. The £12.9 million is split between operating segments (see note 2 to the accounts) as Beer £4.1 million, Pub Partnerships £0.3 million, Inns £3.8 million, Restaurants £1.8 million, Hotels £1.5 million and Central Services £1.4 million.

Exceptional items

Exceptional costs of £78.5 million were charged against operating profit, of which £46.8 million represents asset write-downs. There were also exceptional non-operating items that totalled a net amount of £13.9 million. The total exceptional charge of £92.4 million is analysed in note 4 to the accounts.

With regard to the restructuring costs, only those which are permissible under FRS 12 (Provisions and Contingencies) have been provided for in 1999/00. There will be further restructuring costs which fall into 2000/1 and which will be accounted for as an exceptional item in that year.

Reorganisation

The restructuring of the pubs and restaurants businesses results in the formation of two new divisions – Pubs & Bars and Restaurants. The pro forma 1999/00 segmental profits for these two new divisions are estimated as £174 million and £121 million respectively.

Taxation

The taxation charge for the year was £75.4 million. The effective rate of tax on profit before exceptional items was 23.3% compared with 22.3% for the previous year (restated for FRS 15), or 23.1% for the previous year on a comparable post-FRS 15 basis. The effective rate of tax continues to be lower than the standard UK corporate tax rate of 30%, principally because of the recent levels of capital expenditure. The resulting tax relief has exceeded the charge for depreciation.

Second half year as a discrete period

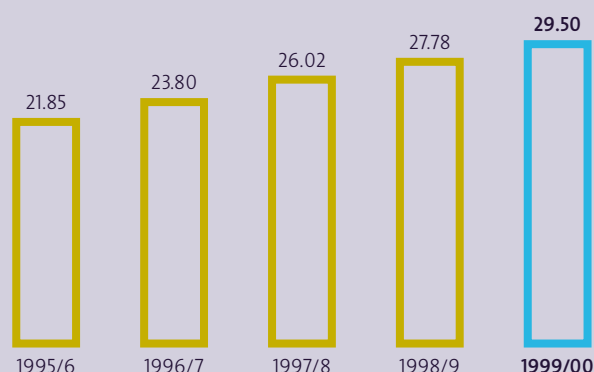
The second half benefited from an extra week's trading (the 53rd week). It also benefited from improved sales trends, as described earlier.

The early adoption of FRS 15 for the year's accounts has created a mismatch between profits of the two half years. The full year effect of FRS 15 was £43.2 million. The pro forma effect of FRS 15 on the first half year's profit is estimated as £20 million.

Shareholder return

Earnings per share, adjusted for exceptional items and FRS 15 comparability, grew by 4.7%. The proposed final dividend is 21.85 pence per share. The total dividend for the year, interim plus final of 29.50 pence per share, results in growth of 6.2%. The total dividend is covered 1.8 times by adjusted earnings per share.

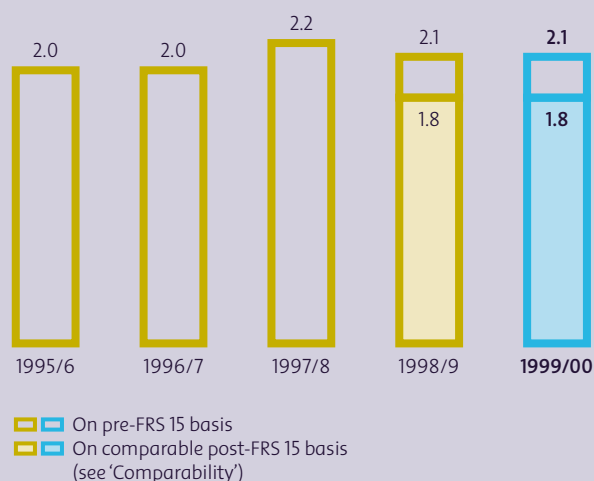
Ordinary dividend per share (pence)



The company's share price closed the year at 513.5 pence, compared with an opening price of 890 pence.

Net asset value per share at the balance sheet date was 512 pence, compared with 502 pence at the previous year end.

Dividend cover (times covered)



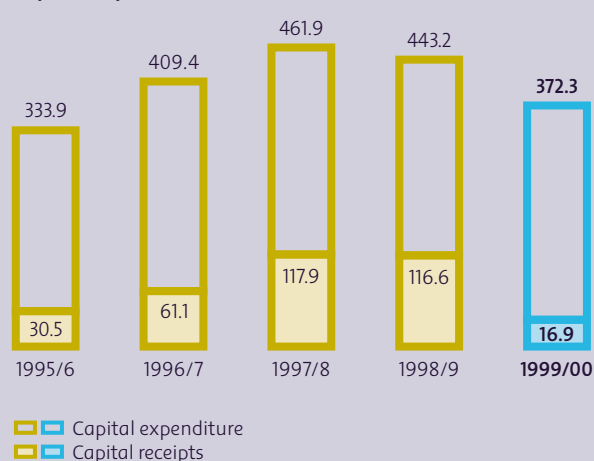
Cash flow

Cash inflow from operating activities increased by £40 million to £559 million, reflecting the growth in underlying profitability.

Net cash outflow from 'capital expenditure and financial investment', at £345 million, was slightly ahead of last year. Capital expenditure was £71 million lower, while proceeds from the disposal of property and plant were £100 million lower at £17 million. Disposals in 1998/9 were significantly boosted by sales of some large blocks of pubs and pub/restaurants.

The cash outflow before financing was £675 million. In order to assess the underlying cash flow performance, it is necessary to eliminate the cash flows relating to the acquisition and disposal of businesses (net outflow of £621 million) and the investment in new retail outlets (outflow of £190 million included within 'property and plant purchased'). Underlying cash inflow, after making these adjustments, was £136 million. The equivalent figure for 1998/9 was £179 million.

Capital expenditure (£m)



Financial Reporting Standards

FRS 15 (Tangible Fixed Assets) was adopted in the year. The impact of its adoption is detailed in note 1 to the accounts. Most notable is the increase in the group's depreciation charge for the year of £43.2 million.

Following the adoption of FRS 15, in accordance with the transitional provisions of this new standard, the board has decided to cease to book the results of property revaluations. Consequently, property values are carried at their latest revalued amount, plus subsequent additions at cost. The dates of the last property revaluations are given in note 13 to the accounts.

FRS 16 (Current Tax) was also adopted in the year. It has had no material effect on the reported figures.

Financial risks and treasury policies

The main financial risks faced by the group relate to: the availability of funds to meet business needs; fluctuations in interest rates; and the risk of default by a counterparty in a financial transaction.

The Risk Committee, which is chaired by the group finance director, reviews and monitors the treasury function. The undertaking of transactions of a speculative nature is not permitted.

The group finances its operations by a combination of internally-generated cash flow, bank borrowings and long-term debt market issues. The group seeks to achieve a spread in the maturity of its debts.

Interest rate swaps and interest rate caps are used to achieve the desired mix of fixed and floating rate debt. The group's policy is to fix or cap a proportion of projected net debt over the next five years. This policy reduces the group's exposure to the consequences of interest rate fluctuations.

The group maintains an approved list of counterparties for interest rate swaps and caps, foreign exchange contracts and term deposits. The group monitors its positions with, and the credit ratings of, its counterparties.

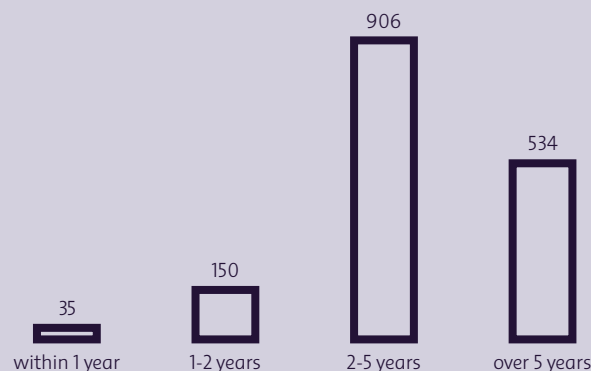
Financial position

Net debt at the year end amounted to £1,721 million, resulting in a balance sheet gearing ratio of 68%.

A new £1,250 million bank facility was arranged in April 2000. This replaced a revolving credit facility of £530 million, which was due to expire in January 2001, and a £750 million bank facility, arranged to finance the Swallow Group acquisition. £625 million of the new facility has a three year term, while the remaining £625 million has a five year term.

Debentures with a nominal value of £115 million were inherited on the acquisition of the Swallow Group. These were fair-valued to £165 million, reflecting their high fixed interest rate coupons.

Pro forma debt profile* (£m)



*After refinancing in April 2000

Interest rate risk management

At the year end £462 million (27%) of group net sterling debt was fixed for a weighted average of 10.9 years, using fixed rate borrowings and interest rate swaps. The average rate of interest of this fixed rate sterling debt was 7.1%. A further £70 million was covered by interest rate caps for 1.2 years with an average cap rate of 8.4%.

Based on the group's net debt position at the year end, a 1% change in interest rates would affect costs by approximately £12 million, or around 3% of the 1999/00 operating profit before exceptional items.

Foreign currency risk management

At the year end foreign currency borrowings amounted to £48 million. Any foreign currency borrowings, other than those made to hedge overseas investments, have been swapped into sterling.

Transaction exposures resulting from purchases in foreign currencies may be hedged by forward foreign currency transactions and currency options.

Year 2000

Our Year 2000 'Readiness' programme, the associated business continuity plans and specific strategic replacement projects were all completed before the end of 1999. No major problems emerged over the millennium changeover period or since.

Whilst everything possible has been done to protect the business from any unforeseen millennium or leap year-related problems in the future, it is not possible to guarantee that none will occur. However, the 'Readiness' programme and continuity plans should enable a quick and effective response to any such occurrences.

The overall cost of the Year 2000 programme was in line with our previously reported estimate of £8 million.

The Euro

During the financial year a steering committee, consisting of representatives of our major businesses and support functions, has continued to monitor the Euro's development. The immediate impact of the Euro is not significant for Whitbread.

**1 Sir Michael Angus*****Chairman**

A director from 1986, and chairman from 1992, Sir Michael is a member of the Remuneration Committee and also chairs the Nomination Committee. In addition he is deputy chairman of Boots and British Airways, and a director of Halcrow Group Limited. Until March 2000, Sir Michael was a non-executive director of National Westminster Bank. He was also formerly president of the CBI, chairman of Unilever and of RAC Holdings. Aged 69.

2 David Thomas**Chief Executive**

Appointed chief executive in 1997, he has been at Whitbread since 1984 and a director since 1991. His roles have included managing director of Whitbread Inns and Whitbread Restaurants and Leisure. Previously, he was with Finefare, Linfood and Grand Metropolitan. He is a trustee of Gifts in Kind UK, a member of the Food from Britain Council and the London Tourist Board, and a council member of the Brewers and Licensed Retailers Association. He was awarded the CBE in the Millennium Honours List. Aged 56.

3 Alan Perelman**Finance Director**

Finance director since 1990, he was also human resources director from 1994 until January 1998. He joined the company in 1989, having previously been at Gateway as finance director and at Rio Tinto in the UK and overseas. He is non-executive vice chairman of Norwich Union and is a member of the CBI Economic Affairs Committee. Aged 52.

4 David Richardson

Strategic planning director since 1993, he was appointed to the board in 1996. He has been with Whitbread since 1983, in roles including finance director of Whitbread Inns and planning director of Whitbread Restaurants and Leisure. He was previously at ICL, having trained as an accountant with Touche Ross. A member of the CBI Council. Aged 48.

5 Bill Shannon

Managing director of Whitbread Restaurants division and a director of Whitbread since 1994, he joined the company in 1974 as a finance manager and has since been managing director of Beefeater Restaurant and Pub, Thresher, Whitbread Pub Partnerships and Whitbread Inns. He is a non-executive director of Aegon UK PLC. Aged 50.

6 Miles Templeman

Managing director of Whitbread Beer Company, having previously been managing director of Thresher and group marketing director for Whitbread. He joined the company in 1985 and became a director in 1991. Before this, he was with Beecham Foods and Levi Strauss. He is a non-executive director of Albert Fisher Group and The Post Office and a member of the Portman Group. Aged 52.

7 Sir John Banham*

Appointed a director in November 1999, Sir John Banham will succeed Sir Michael Angus as chairman after the Annual General Meeting on 20 June. He is a member of the Remuneration and Nomination Committees. Currently chairman of Kingfisher and ECI Group, and chairman of Tarmac until March 2000, Sir John was a director of McKinsey and Co before becoming the first controller of the Audit Commission in 1983 and director-general of the CBI in 1987. He was also the first chairman of the Local Government Commission for England, from 1992-95, and the founding chairman of Westcountry Television. Aged 59.

8 Martin Broughton*

A director since 1993, he is also chairman of the Remuneration Committee and a member of the Nomination Committee. He is chairman of British American Tobacco, an independent director of the British Horseracing Board and a member of the Financial Reporting Council. Aged 53.

**9 Lord MacLaurin*
Deputy Chairman**

Appointed a director in 1997, and deputy chairman since March 1999, he is a member of the Remuneration and Nomination Committees. A former chairman of Tesco, he is deputy chairman of Vodafone and chairman of the England and Wales Cricket Board. Aged 63.

10 Prue Leith*

Appointed a director in 1995, she is a member of the Remuneration, Nomination and Audit Committees, a former non-executive director of Safeway PLC and Halifax plc and is a non-executive director of Triven VCT PLC. Aged 60.

11 John Padovan*

A director since 1992, he is a member of the Remuneration and Nomination Committees, chairman of the Audit Committee and chairman of Whitbread Pension Trustees. He is a non-executive director of Schroder Split Fund, Tilbury Douglas and chairman or a non-executive director of several other companies. Aged 61.

12 Karel Vuursteen*

A director since 1993, he is chairman of the executive board of Heineken, a member of the Supervisory Boards of Gucci Group, Electrolux and Nyenrode University and a member of the Advisory Council of ING Group and CVC Capital Partners. Aged 58.

13 Sam Whitbread*

A director since 1972 and chairman from 1984 to 1992, he is a member of the Remuneration, Nomination and Audit Committees. Aged 63.

14 Lord Williamson*

Appointed a director in May 1998. Before this, he was secretary-general of the European Commission from 1987 to 1997, having been head of the European secretariat, UK Cabinet Office from 1983 to 1987 and Deputy Director General for Agriculture at the Commission between 1977 and 1983. He is a member of the Audit, Remuneration and Nomination Committees. Aged 65.

*Non-executive director

The directors present their report and accounts for the year ended 4 March 2000.

Results and dividends

The group profit before tax for the year amounted to £255.6 million. The directors have recommended a final dividend for the year of 21.85 pence per ordinary share, payable on 14 July 2000 to shareholders on the register at close of business on 19 May 2000. The total dividend for the year, including the interim dividend of 7.65 pence per share paid on 11 January 2000, amounts to 29.50 pence per share, which represents an increase of 6.2% on the total dividend for the previous year. Shareholders may participate in a dividend reinvestment plan, under which their cash dividend is used to purchase additional shares in the company. Information on the plan is given on page 60.

Principal activities and review of the business

A detailed review of the company's activities and the development of its business, and an indication of likely future developments, are given on pages 3 to 11.

Board of directors

The directors are listed on pages 12 and 13. All of them served throughout the financial year, except Sir John Banham, who was appointed on 17 November 1999, and will stand for re-election at the forthcoming Annual General Meeting. Alan Perelman, Bill Shannon, Miles Templeman and Sam Whitbread will retire from the board by rotation at the forthcoming Annual General Meeting and offer themselves for re-election. Martin Broughton is also to retire but does not seek re-election.

Sir Michael Angus will be succeeded as chairman by Sir John Banham following the Annual General Meeting on 20 June 2000, and will retire as a director of the company at that time.

Details of the service contracts and interests of the directors in the company's shares are given on pages 19 and 22 to 23. Of the directors proposed for re-election at the forthcoming Annual General Meeting, Alan Perelman, Miles Templeman and Bill Shannon have a service contract with a notice period of two years. In common with all the other non-executive directors, neither Sam Whitbread nor Sir John Banham has a service contract.

Supplier payment policy

The company keeps to the payment terms which have been agreed with suppliers. Where payment terms have not been specifically agreed, it is the company's policy to settle invoices close to the end of the month following the month of invoicing. The company's ability to keep to these terms is dependent upon suppliers sending accurate and adequately-detailed invoices to the correct address on a timely basis. The company had 47 days' purchases outstanding at 4 March 2000, based on the trade creditors and accruals outstanding at that date and purchases made during the year.

Employees and employment policies

In order to attract and retain the best people, Whitbread continually looks for effective ways to reward its employees. It offers a wide range of benefits, including share schemes, healthcare, and employee counselling.

The company is committed to increasing employee involvement and believes that effective two-way communication between the company and its employees brings real business benefits. Employees have opportunities to express their views and receive information about the company at meetings with management, via elected representatives at 'Business Improvement Groups', and through regular employee opinion surveys.

Employee share schemes

Whitbread seeks to give its employees a direct stake in the business and to align their interests with those of other shareholders through share schemes. In June 1999, almost 400,000 ordinary shares were issued to the trustees of the Share Ownership Scheme on behalf of about 16,000 employees.

In December 1999, 8,488 employees were granted options over 3.8 million shares at 549.7p under the terms of the Sharesave Scheme. Presently, more than 12,000 employees hold options over some ten million shares under that Scheme.

During the year some 124 senior executives were granted options over a total of 585,000 shares under the executive share option schemes. These options may only be exercised if the performance criteria described on page 19 are met.

Potential awards over 152,234 shares were made to senior executives under the Long Term Incentive Plan, which is described on page 19.

Employee safety

The company makes every effort, in conjunction with employees, suppliers, the police, environmental health officers and the Home Office, to provide a safe working environment for all of its employees. Each Whitbread business focuses on this in its operations, in the belief that a safe environment improves morale and motivation and enhances customer relations.

Diversity

Whitbread strives for excellence in the treatment of its people and to provide a working environment in which all its colleagues, customers and business partners are treated with dignity and respect. The company is committed to the equal recruitment and treatment of all people and views the creation of equality of opportunity and diversity as a fundamental part of all roles within the business.

Whitbread supports internal, external, local and national steps to remove discrimination and victimisation, for example, in relation to age, ethnic origin, disability, nationality, gender and sexual orientation.

As part of the company's ongoing diversity programme, training packs on 'Welcoming disabled customers', based on input from the Employers' Forum on Disability, have been provided to each outlet manager. This is intended to equip all outlet staff to respond to all customers' needs and is in line with the Disability Discrimination Act.

Environment

Whitbread recognises its responsibility to achieve good environmental practice and to continue to strive for improvement in its environmental impact. Every Whitbread business is required to develop its own environmental policy and objectives taking account of the risks and opportunities which its business activity presents. Throughout the company there is particular emphasis on improving the efficiency of its energy usage.

The company participates in the annual Business in the Environment Index, which indicates the extent to which companies are addressing their environmental impact. Over the last two years the company has achieved an improvement in its score for environmental management from 59% to 69%. Plans are in hand to achieve a further improvement in 2000.

Research and development

E-business

Development work is taking place throughout the company which will enable operating businesses to make the most of the power of internet technology to transform their business processes. The aim is to create new revenue opportunities, increase efficiencies throughout the value chain and drive new competitive advantages. To support this endeavour, Whitbread is making major investments in its infrastructure. Browser based technology is being introduced in outlets to allow processes like payroll, business done, labour scheduling and goods ordering to be transferred on-line. The future benefit to the business will be highly significant as it will speed up processes which are currently paper and labour intensive, reduce re-work and increase accuracy. Documentation such as training manuals and health and safety guidelines will also be held on-line.

One of the biggest opportunities is 'business-to-business' where e-procurement is revolutionising the way companies buy everything from raw materials to office supplies. Managers in many Whitbread outlets will be able to order goods on-line from our preferred suppliers.

Many of our businesses now have their own websites. On-line booking is already available for Marriott hotels and Travel Inn will follow later this year. A website also supports the 'Lifestyle Benefits' programme at David Lloyd Leisure. The site has an on-line magazine and links to benefits partners. The corporate website is for investors and other key stakeholders. E-business is no longer an initiative – it is becoming integral to the way that Whitbread does business.

Innovation

Listening to customers is the most valuable research Whitbread undertakes. It means that the company's products and services are constantly being adapted to meet changing tastes and preferences.

Brewsters is a good example. This is a pub specifically designed to meet the needs of parents with young children. Casa, a cafe bar, provides different amenities for different times of the day – a relaxed seating area for morning coffee and a lively bar for the evening.

Source, a fruit flavoured vodka drink, was developed by the Whitbread Beer Company and is proving extremely popular. It doubled its sales volume in the last year.

Charitable donations and investment in the community

During the year the group contributed £0.7 million for charitable purposes (1998/9 – £0.8 million) and the Whitbread Charitable Trust donated a further £0.3 million. The total amount invested directly by the company in support of its Community Investment Programme initiatives was £2.3 million (1998/9 – £2.5 million). Recognising that this does not represent the full value of its community contribution the company has, as last year, applied the London Benchmarking Group's principles to recording and valuing all of its community activity, which has increased the contribution to £4.3 million (1998/9 – £3.9 million). This does not include the substantial sums donated to good causes by Whitbread's customers through schemes facilitated by the company, which amounts to more than £2 million. As a founder member of the PerCent Club in 1986, Whitbread was pleased to be recognised this year as one of the first companies to achieve the PerCent Club Millennium Standard.

No political donations were made during the year.

Share capital

In July 1999, shareholders gave approval for the cancellation and repayment of all the company's classes of preference stock by a reduction in capital, and consequently the preference stock was repaid on 28 July 1999. Details of the stock repaid are given in note 24 to the accounts on page 50.

As at 4 March 2000 the company had shareholders' authority to purchase 49,479,979 ordinary shares in the capital of the company.

Major interests

As at 28 April 2000, the company had been notified by AXA S.A. of a material interest in 17,524,523 shares representing 3.53% of the issued share capital of the company and by Legal & General Investment Management Limited of a material interest in 14,915,444 shares representing 3% of the issued share capital of the company. There is a further technical interest explained in note 24 to the accounts on page 50.

Going concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue operating for the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the accounts.

Auditors

Ernst & Young have expressed their willingness to continue in office as auditors of the company and a resolution proposing their re-appointment will be put to shareholders at the Annual General Meeting.

Annual General Meeting

The AGM will be held at 12 noon on 20 June 2000 at The Brewery, Chiswell Street, London EC1Y 4SD. The notice of meeting is enclosed with this report and is accompanied by a letter from the Chairman. In addition to the ordinary business of the meeting, shareholder consent will be sought to renew authority for the purchase by the company of its own ordinary shares, and to authorise the board to increase the aggregate limit on fees paid to directors.

Corporate governance

The company is committed to high standards of corporate governance and has complied with the provisions set out in Section 1 of the Combined Code⁽¹⁾ throughout the year, with the exception of certain provisions relating to the appointment of a senior independent director and to directors' service contracts. These are dealt with below and on page 19 respectively.

The board of directors

The company believes that leadership by a strong and effective board is the best way for the company to achieve sustained business success and increase shareholder value.

The Whitbread board is made up of the chairman, deputy chairman, seven other non-executive directors and five executive directors. This provides a proper balance of executive and non-executive directors for the good governance of the company. The members of the board are described on pages 12 and 13. The board meets eleven times each year, and has a formal schedule of matters reserved to it for decision, which include the group business plan, treasury policy and major acquisitions and disposals. Directors are given appropriate and timely information for each board meeting, including monthly reports on the current financial and trading position of each of the businesses. All directors have access to the advice and services of the Company Secretary, and independent professional advice, if required, at the company's expense.

There is a clearly defined division of the two key functions at the top of the company. The role of the chairman is to be leader of the board, and that of the chief executive is to run the business.

All of the non-executive directors bring to the board considerable knowledge and experience from other areas of business and public life. With the exception of Karel Vuursteen, the board believes that all of the non-executives are independent. Karel Vuursteen is Chairman of the Executive Board of Heineken. In view of the licence arrangements between Whitbread and Heineken, the board considers that he may not be independent within the context of the Combined Code.

The board has considered the position of Sam Whitbread, who is a past chairman of the company. For part of his chairmanship he had some executive responsibilities, but he transferred these to the chief executive more than ten years ago. In the light of this, and of the independent judgement which he brings to the board's deliberations, the board is entirely satisfied that Sam Whitbread is wholly independent.

In view of the calibre and number of non-executive directors, from whom are appointed the deputy chairman and the chairmen of the Remuneration, Audit and Nomination Committees, the board has not considered it appropriate to nominate a senior independent director as recommended by the Code.

Board committees

The board has delegated authority to the following committees on specific matters, which are set out in a written constitution and terms of reference for each committee.

The **Audit Committee** reviews the company's internal controls and ensures that the financial information supplied to shareholders is complete and accurate and presents a balanced assessment of the company's position. It is also responsible for reviewing the internal audit programme, and major findings of internal audit reviews, the appointment of external auditors, advising the board on the auditor's fees and reviewing the scope of the annual audit. The committee reviews the half-year financial statements, annual accounts and accompanying reports to shareholders before their submission to the board.

The committee members are all non-executive directors: John Padovan (chairman), Prue Leith, Sam Whitbread and Lord Williamson. The committee meets three times a year, with the finance director and other officers also attending. It also meets at least annually with the auditors, without an executive director present.

The **Remuneration Committee** is responsible for determining the broad policy for the remuneration of the Executive Directors and members of the Executive Committee and for determining their entire individual remuneration packages. The committee takes external advice from a leading firm of remuneration consultants.

The report on directors' remuneration on pages 18 to 23 gives full details of the company's policy on executive remuneration and of individual directors' remuneration packages. Throughout the financial year ended 4 March 2000 the company complied with the provisions concerning remuneration committees in the Combined Code's Section B and Schedule A and its report has been drawn up in accordance with Schedule B of the Code.

The committee meets at least twice a year. Its members are Martin Broughton (chairman), Sir Michael Angus, Sir John Banham, Prue Leith, Lord MacLaurin, John Padovan, Sam Whitbread, and Lord Williamson, all of whom are independent non-executive directors. The Chief Executive also attends meetings, by invitation of the chairman of the committee. No director is present during any meeting at which his or her own remuneration is discussed. The fees of the non-executive directors are a matter for the board, excluding the non-executive directors.

⁽¹⁾ The principles of good governance and code of best practice prepared by the Committee on Corporate Governance and appended to the Listing Rules of the UK Listing Authority.

The **Nomination Committee** makes recommendations to the board for appointment and re-election of directors, both executive and non-executive. The committee uses external recruitment consultants where appropriate. No director is present at any discussion of his or her own re-appointment.

The committee members are Sir Michael Angus (chairman), Sir John Banham, Martin Broughton, Prue Leith, Lord MacLaurin, John Padovan, Sam Whitbread, Lord Williamson, and David Thomas.

Every director is required to retire by rotation, and may stand for re-election if nominated by the committee, at least every third year. All new appointments of non-executive directors will now be for an initial fixed term of three years. An induction to the company's business and training is available for all directors on appointment.

The board has delegated authority to the following formally constituted committees in order to streamline its operation.

The **Main Board Committee** is responsible for the detailed scrutiny and formulation of policy to be recommended to the board on group strategy, corporate communications, and organisation and management development. It comprises the executive directors and the chairman and meets monthly.

The **General Purposes Committee** deals with business of a routine nature and with other specific matters delegated to it by the board. The committee is made up of at least two directors designated by the board and meets as required.

In addition to the above the **Executive Committee** meets monthly and deals with the day-to-day management of the company. It is chaired by the chief executive and its members are the executive directors and the following executives :

- **Christine Bulmer** human resources director
- **Stewart Miller** managing director,
The Pub & Bar Company @ Whitbread
- **Alan Parker** managing director,
Whitbread Hotel Company
- **Steve Philpott** managing director,
David Lloyd Leisure
- **Hugh Siegle** managing director,
Whitbread Property
- **Alan Taylor** services director

Internal financial control

The group has adopted the transitional approach for the Combined Code, set out in the letter from the London Stock Exchange to listed companies at the end of September 1999, and reports as follows:

Wider aspects of internal control

The board expects to have in place by the end of the company's 2000/01 financial year the procedures necessary to implement fully the guidance 'Internal Control: Guidance for Directors on the Combined Code'. This takes account of the time needed to put in place the formal procedures which the board has agreed should be established. These include holding risk management workshops and formalising and improving existing processes designed to identify, monitor and manage risk.

The board will consider risk management and internal control on a regular basis during the year and there will be a full risk and control assessment before reporting on the year ending 3 March 2001.

Internal financial control

The directors acknowledge their responsibility for the company's system of internal financial control. This can be defined as the controls established in order to provide reasonable assurance that: the assets have been protected against unauthorised use; proper accounting records have been maintained; and the financial information which is produced is reliable. Such a system can, however, only provide reasonable and not absolute assurance against material misstatement or loss.

In discharging this responsibility the directors rely upon the following processes:

- Financial controls and procedures are set out in policy and procedures manuals, which are regularly reviewed and updated when appropriate.
- The internal audit function reports on the effectiveness of operational and financial controls across the group. The Audit Committee meets regularly with both the internal and external auditors to review their major findings and the resultant consequences.
- Limits of authority are prescribed for employees. The company's Code of Business Ethics has recently been updated and reissued to all managers. The company's organisational structure allows the appropriate segregation of tasks.
- There are detailed appraisal and approval processes for capital expenditure and substantial revenue projects. In addition, a post completion review of all major projects is undertaken.

- Treasury operations are conducted in accordance with detailed procedures and mandates. The Risk Committee reviews treasury activities monthly. This committee is chaired by the group finance director and comprises the strategic planning director, the group treasurer and the group financial controller.
- Business plans and budgets are formulated, evaluated and approved annually by the board. Actual results and cash flows are reported monthly against budget and the previous year's figures. Revised profit and cash flow forecasts are prepared and reviewed monthly. Key risks are identified and action plans are prepared accordingly.

The directors confirm that they have reviewed the effectiveness of the system of internal financial control, in accordance with the Guidance for Directors on 'Internal Control and Financial Reporting' issued in December 1994.

Auditors

After careful consideration, the Audit Committee is satisfied that the company's auditors, Ernst & Young, continue to be objective and independent of the company.

Although the auditors also perform non-audit services for Whitbread, the committee is satisfied that such work, primarily corporate finance related, is best handled by Ernst & Young because of their knowledge of Whitbread. Again, the committee believes their objectivity is not impaired by reason of this further work. Note 3 to the accounts on page 34 discloses the fees paid to Ernst & Young during the year.

Dialogue with shareholders

The company maintains a regular dialogue with its institutional shareholders by means of regular meetings and presentations throughout the year. The Annual General Meeting allows private shareholders to raise questions with the board, although enquiries from shareholders are dealt with throughout the year.

The Whitbread website (www.whitbread.co.uk) is a source of corporate information for investors and key stakeholders, as well as a means of two-way communication between Whitbread and its shareholders.

Code of Business Ethics

The company takes the view that corporate governance is not a matter for the board or its committees alone and has developed a Code of Business Ethics. This covers dealings with customers, suppliers and government officials; safeguarding the company's assets; keeping accurate and reliable records; and avoiding conflicts of interest. Its principal message is that all employees must observe a code of conduct based on honesty, integrity and fair dealing. The Code has recently been updated and distributed throughout the Whitbread group.

Remuneration report

This report outlines the company's policy on executive remuneration and gives details of directors' pay and pensions for 1999/00, the interests of directors in the company's shares, and fees for non-executive directors. This report has been drawn up in accordance with Schedule B of the Combined Code.

Remuneration policy

The company has to be able to attract, retain and motivate high calibre executives. The Remuneration Committee therefore takes advice from independent pay consultants, Towers Perrin, on the level and structure of executive packages offered generally in the UK market but with particular emphasis on 25 companies that are felt to be the most relevant comparators for Whitbread. It is an important principle of the company's pay policy that rewards should generally be in line with but not exceed what is offered by the comparator group, unless Whitbread's performance is clearly superior. It also has regard to the wider scene including the approach to pay taken elsewhere in the company.

To ensure that individual rewards and incentives are aligned with the interests of shareholders a significant part of executive rewards is directly linked to the performance of the company over the short, medium and long term.

The components of the packages offered to directors are salary, taxable benefits, annual performance related payments, share schemes and awards under a long term incentive plan.

Salary

The committee reviews executive directors' salaries each year. In doing so it takes into account market movement in the salaries for equivalent positions in the comparator group, the level of salary awards to the company's UK employees as a whole and the performance of individual executives.

Taxable benefits

The main taxable benefits provided to executive directors are health care and a company car.

Annual performance-related payments

For the year under review, executive directors were eligible to receive an annual bonus made up of separate cash and share elements. The cash bonus of up to 40% of salary could be achieved depending on the extent to which appropriate company, divisional and personal objectives were met, using both financial and non-financial performance measures. Actual awards are shown in the table on page 20. The share based bonus of up to 10% of salary could be achieved depending on reaching a specific EPS growth target. This target was not reached and accordingly no bonus paid.

The Remuneration Committee has recently decided to modify the annual incentive payment to a single cash bonus that will be 33% of salary for the achievement of agreed targets but can be up to 80% of salary for exceptional performance. Performance will be measured against stretching financial and non-financial targets. The committee will approve the targets each year and any bonuses paid will be based on the extent to which the targets are achieved.

Share schemes

Executive directors and senior managers are granted options over shares in the company under two executive share option schemes, one of which has been approved by the Inland Revenue. Executive options are granted at the average market price on the five dealing days preceding the date of grant. Executive options granted during the year included replacement options made on the grounds of satisfactory improvement in the operating performance of the company over the preceding two to three years.

Executives may not normally exercise options earlier than three years nor more than ten years after the grant. Options granted since 1995 are performance-related. The committee has specified that they may only be exercised if:

- either the growth in the company's adjusted earnings per share ('EPS') has exceeded the Retail Prices Index by more than 2% a year; or
- the company's Total Shareholder Return ('TSR') has exceeded the average return of the FT-SE 100 companies over that period.

The share option scheme has recently been modified, within its existing rules, in order to incentivise the achievement of genuine stretch performance targets. Future practice will be to grant a fixed number of options to directors and senior managers on an annual basis. Any grants which will result in outstanding options having a value in excess of four-times salary will be met with shares purchased in the market and therefore will not be dilutive to shareholders. The proposed annual grant levels will be in line with market practice, and are expected to be of the order of one times salary per annum for executive directors.

The Remuneration Committee has also decided to make the performance condition for the exercise of share options more stretching in future by requiring the growth in adjusted EPS to exceed RPI by 4% (previously 2%) a year measured over any three consecutive years out of the ten year performance period, and to remove the total shareholder return based alternative.

Executive directors may also participate in the company's sharesave scheme and share ownership scheme on the same basis as all other employees.

Long Term Incentive Plan

The Plan is presently available to executive directors and other nominated senior executives. It is designed to motivate them to deliver superior performance and increase shareholder value, so aligning their own long-term interests with those of the company and its shareholders.

The Plan rewards executives with shares rather than cash benefits. Awards are based on three-year performance periods and are calculated by taking half of the executive's salary at the start of the period and dividing it by the Whitbread share price averaged over the five business days preceding the start of the performance period.

For existing performance periods, the actual number of shares received depends on the performance of the company over the three-year period. A participant receives the maximum number of shares only if the company's TSR ranks 25th or above against that of the companies in the FT-SE 100 Index. For rankings between 25th and 60th the award declines proportionately, until at 60th ranking participants receive only 30% of the shares. Below 60th no shares are awarded.

For 2000/03 and future performance periods, the Remuneration Committee has decided to amend the current comparator group used to measure the company's relative TSR performance under the Plan. Performance is currently measured against the FT-SE 100 which the committee feels is no longer appropriate and future performance will be measured against a group of 25 peer companies in related industries. These companies are the same as those currently used as a peer group comparison for pay benchmarking purposes.

In addition, the committee has decided to raise the performance threshold at which payments are made from 40th percentile to 50th percentile, i.e. 13th out of 25, measured against the comparator group.

Shareholding guidelines

The company believes that executive shareholding is an important tool in aligning the interests of executives and shareholders. Formal shareholding guidelines are therefore being introduced for main board directors and members of the Executive Committee, who will have five years to build up the specified holding of shares.

Fees from external directorships

Subject to the board's approval, executive directors may accept non-executive directorships and other relevant appointments outside the company, provided this would not harm their ability to perform their Whitbread duties. Executive directors may retain up to half the fees received from external appointments. The balance is donated to charity.

Directors' service contracts

The Remuneration Committee has reviewed the company's position with regard to directors' service contracts. These currently have two years' notice, the period having been successively reduced, from five to three years in 1993/4 and to two years in 1994/5. The committee has taken external advice from independent consultants and considers that at the present time it is in the company's best interests and in line with market practice to keep the two-year notice period in order to be able to retain and recruit directors of an appropriate calibre. The committee recognises that this does not follow the recommendations of the Combined Code and will continue to review the company's position on this issue.

The committee carefully considers arrangements for early termination of service contracts and recognises the obligation of departing directors to mitigate their own loss, for example, by finding new employment. Any compensation payable on early termination of the service contract would take into account the director's ability to find alternative work during the notice period.

Directors' pay and pensions for 1999/00**Directors' pay**

The table below shows a breakdown of the value of the various elements of pay received by the directors for the period from 28 February 1999 to 4 March 2000, except as otherwise indicated.

	Basic salary £	Taxable benefits £	Performance related payments £	Total excluding pensions	
				1999/00 ⁽¹⁾ £	1998/9 ⁽¹⁾ £
Chairman					
Sir Michael Angus	191,604	23,133	–	214,737	212,419
Executive directors					
A S Perelman	306,613	21,458	89,640	417,711	363,558
D H Richardson	205,099	14,164	60,775	280,038	238,657
W M F C Shannon	283,329	15,239	97,500	396,068	312,583
M H Templeman	283,421	12,852	97,725	393,998	361,597
D M Thomas	480,927	13,020	148,476	642,423	539,103
Non-executive directors					
Sir John Banham ⁽²⁾	7,788	–	–	7,788	–
M F Broughton ⁽³⁾	27,000	–	–	27,000	27,000
P M Leith	27,000	–	–	27,000	27,000
Lord MacLaurin	27,000	–	–	27,000	27,000
J M F Padovan ⁽⁴⁾	27,000	–	–	27,000	27,000
K Vuursteen ⁽³⁾	27,000	–	–	27,000	27,000
S C Whitbread	27,000	–	–	27,000	27,000
Lord Williamson	27,000	–	–	27,000	22,292

⁽¹⁾ Total emoluments for the period were £2,541,763. The total for 1998/9 was £2,212,209.

⁽²⁾ Fees for part-year. Sir John was appointed on 17 November 1999.

⁽³⁾ The fees in respect of Mr Broughton and Mr Vuursteen are paid to British American Tobacco and Heineken respectively.

⁽⁴⁾ In addition to these fees, Mr J M F Padovan receives £8,000 per annum as chairman of Whitbread Pension Trustees Limited.

Fees to former director

Sir Michael Franklin retired as a director on 16 June 1998, and was subsequently retained as a consultant to the company's Food Safety Task Force. He received £7,308 during the year for this work.

Directors' interests in shares

Shares

The following table shows the directors' interests in ordinary shares of the company. All holdings were beneficial, except as shown, and include those held under the Whitbread Share Ownership Scheme:

	27/2/99	4/3/00
Sir Michael Angus	7,000	9,000
Sir John Banham	–	1,500
M F Broughton	3,727	3,800
P M Leith	5,195	6,178
Lord MacLaurin	3,000	3,000
J M F Padovan	2,000	5,000
A S Perelman	49,456	55,114
D H Richardson	14,266	20,312
W M F C Shannon	25,303	37,094
M H Templeman	22,621	29,750
D M Thomas	41,192	61,195
K Vuursteen	–	–
S C Whitbread ⁽¹⁾	3,255,344	3,249,557
Lord Williamson	500	1,500

⁽¹⁾ Includes non-beneficial holdings of 1,382,844 ordinary shares (1,382,844 at 27/2/99).

Share Options

The directors held the following share options under the Executive Share Option Schemes and the Sharesave Scheme. The earliest date on which any of the Executive options could have been exercised was December 1993, with the latest date being June 2009. Sharesave options have a six month exercise period. No options lapsed during the year.

	Options			Exercise price	Market price at date of exercise	Gain £	Options held at 4/3/00	Weighted ⁽³⁾ average exercise price
	Held at 27/2/99	Granted during the year	Exercised during the year					
A S Perelman	174,901	3,200 ⁽¹⁾	–	1101p			178,101	691.6p
D H Richardson	126,287	2,200 ⁽¹⁾	–	1101p			128,487	654.4p
W M F C Shannon	134,390	8,500 ⁽¹⁾ 352 ⁽²⁾	– 681 ⁽²⁾	1101p 549.7p 440p	437.5p	Nil	142,561	804.4p
M H Templeman	143,802	3,000 ⁽¹⁾	– 2,045 ⁽²⁾	1101p 440p	437.5p	Nil	144,757	787.1p
D M Thomas	287,841	5,000 ⁽¹⁾ 352 ⁽²⁾	– 681 ⁽²⁾	1101p 549.7p 440p	437.5p	Nil	292,512	660.0p

⁽¹⁾ Executive Schemes options

⁽²⁾ Sharesave Scheme options

⁽³⁾ The weighted average exercise price is shown here because the share options held by the directors are exercisable at a range of prices and over varying periods of time.

The mid-market price of Whitbread ordinary shares on the last business day before 4 March 2000 was 513.5p (27 February 1999 – 890p). The highest and lowest prices between those dates were 1129.5p and 437p respectively.

Long Term Incentive Plan

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

	Potential awards held at 1/3/99	Potential awards for the three year performance period ending on 28/2/02 ⁽¹⁾	Actual awards for the performance period ended on 28/2/99 ⁽²⁾		Awards lapsed during the year	Potential awards held at 4/3/00
			Shares	Value £		
A S Perelman	46,424	16,445	5,604	37,771	26,838	30,427
D H Richardson	27,906	11,149	2,987	26,017	16,012	20,056
W M F C Shannon	38,989	14,494	4,173	36,389	22,465	26,845
M H Templeman ⁽³⁾	43,225	15,330	5,127	26,327	24,955	28,473
D M Thomas	52,341	25,922	5,008	45,072	27,914	45,341

⁽¹⁾ The share price used to calculate the potential awards for the three year performance period ending on 28 February 2002 was 896.9p.

⁽²⁾ The value shown is that of the actual awards to each director on the day he called for his shares.

⁽³⁾ Mr M H Templeman has not yet called for his shares and a notional value is therefore shown, calculated using the price at 4 March 2000.

Notes

For the performance period ending on 28 February 2000, the company's TSR performance was ranked 82nd (1998/9 – 58th) relative to companies in the FT-SE 100 Index. Accordingly the awards lapsed.

The company funds an employee share ownership plan trust ('ESOP') to enable it to acquire and hold the necessary shares. The ESOP currently holds 395,539 shares; the executive directors each have a technical interest in all these shares. All dividends on shares in the ESOP are waived by the Trustee.

During the period from 4 March 2000 to 3 May 2000 no director has exercised his option to call for the transfer of his shares out of the Plan.

Changes since 4 March 2000

As a result of the reinvestment of income arising from Personal Equity Plans, David Richardson, Miles Templeman and David Thomas acquired fewer than 30 ordinary shares each.

On 31 March 2000 the investment managers of a trust of which Mr S C Whitbread is a trustee sold 13,000 ordinary shares in the company.

There have been no other changes in directors' interests in ordinary shares since 4 March 2000.

No director had an interest at any time during the year in the preference stock, the secured or unsecured loan stock or the loan notes of the company, or in the shares or loan stock of any subsidiary company.

By order of the board
S C Barratt, Company Secretary

3 May 2000

Registered office:
Chiswell Street
London EC1Y 4SD
Registered in England:
No. 29423

The following statement, which should be read in conjunction with the auditors' statement of their responsibilities below, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements on pages 28 to 57, the group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable Accounting Standards have been followed.

The directors have responsibility for ensuring that the group keeps accounting records which disclose with reasonable accuracy the financial position of the group and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

We have audited the financial statements on pages 28 to 57, which have been prepared under the historical cost convention as modified by the revaluation of property and on the basis of the accounting policies set out on pages 26 and 27.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report. As described on page 16 this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the corporate governance statement on pages 16 to 18 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risk and controls, or form an opinion on the effectiveness of either the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 4 March 2000 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditor
London

3 May 2000

A Accounting convention

The accounts are prepared under the historical cost convention, as modified by the revaluation of property, and in accordance with applicable Accounting Standards.

B Basis of consolidation

The consolidated accounts incorporate the accounts of the company and all group undertakings, together with the group's share of the net assets and results of joint ventures and associates. These are adjusted, where appropriate, to conform to group accounting policies. Acquisitions are accounted for under the acquisition method and any goodwill arising is capitalised as an intangible fixed asset. On disposal of a business, the profit or loss on disposal is calculated after including any goodwill previously written off direct to reserves in respect of that business. The results of companies acquired or disposed of are included in the profit and loss account from or up to the date that control passes respectively. As a consolidated profit and loss account is published, a separate profit and loss account of the parent company is omitted from the group accounts by virtue of the exemption granted by section 230 of the Companies Act 1985.

C Intangible fixed assets

Goodwill arising on acquisitions is capitalised. It is amortised, on a straight line basis, over its estimated useful economic life up to a maximum of 20 years. Licences are amortised over the period of the licence up to a maximum of 20 years. Goodwill written off against reserves in previous years has not been reinstated.

D Tangible fixed assets

Prior to the adoption of FRS 15 in the 1999/2000 financial year, properties were regularly revalued on a cyclical basis. Since the adoption of FRS 15, the group policy has been not to revalue its properties. Consequently the transitional provisions of FRS 15 have been applied and, while previous valuations have been retained, they have not been updated. Details of the last revaluations are given in note 13. Other fixed assets are stated at cost. Gross interest costs incurred on the financing of major projects are capitalised until the time that they are available for use.

Depreciable fixed assets are written off on a straight line basis over their estimated useful lives, as follows:

- Freehold land is not depreciated.
- Freehold buildings are depreciated to their estimated residual values over periods up to 50 years.
- Leasehold properties are depreciated to their estimated residual values over the shortest of 50 years, their estimated useful lives and their remaining lease periods.
- Manufacturing, logistics and administration furniture, fixtures and equipment are depreciated over 3 to 30 years.
- Retail furniture, fixtures and equipment are depreciated over 4 to 25 years.
- Vehicles are depreciated over 4 to 10 years.
- Manufacturing plant and vessels are depreciated over 5 to 30 years.

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment in the value of fixed assets below depreciated historical cost is charged to the profit and loss account. Profits and losses on disposal of fixed assets reflect the difference between net selling price and net book value at the date of disposal.

E Stocks

Stocks are stated at the lower of cost and net realisable value. The cost of finished goods includes appropriate overheads. 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.

F Foreign exchange

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange quoted at the balance sheet date. Trading results are translated into sterling at average rates of exchange for the year. Day to day transactions are recorded in sterling at the rates ruling on the date of those transactions. Currency gains and losses arising from the retranslation of the opening net assets of overseas operations, less those arising from related currency borrowings to the extent that they are matched, are recorded as a movement on reserves, net of tax. The differences which arise from translating the results of overseas businesses at average rates of exchange, and their assets and liabilities at closing rates, are also dealt with in reserves. All other currency gains and losses are dealt with in the profit and loss account.

G Financial instruments

Derivative financial instruments are used by the group for the management of foreign currency and interest rate exposures. Amounts payable or receivable in respect of interest rate swap and interest rate cap agreements are recognised as adjustments to the interest expense over the period of the contracts. Gains or losses on foreign currency forward and option contracts are recognised in the profit and loss account when the hedged transaction occurs. In the balance sheet, payments made to secure a hedge are included with the hedged item to which they relate.

Option premiums paid are recognised in the profit and loss account over the life of the contract. Premiums and discounts arising on financial liabilities are amortised over the remaining life of the instrument concerned.

H Turnover

Turnover is the value of goods and services sold to third parties as part of the group's trading activities, after deducting discounts and sales-based taxes.

I Research and development

Research and development expenditure is charged against operating profit in the year in which it is incurred.

J Leases

Rental payments in respect of operating leases are charged against operating profit on a straight line basis over the period of the lease.

K Pension funding

Pension costs are charged to the profit and loss account over the average expected service life of current employees. Actuarial surpluses are amortised over the expected remaining service lives of current employees, using the percentage of pensionable salaries method. Differences between the amount charged in the profit and loss account and payments made to the schemes are treated as assets or liabilities in the balance sheet.

L Taxation

Deferred taxation is recognised where it is considered that a liability will crystallise or tax will be recoverable in the foreseeable future. Any resulting asset or liability is calculated using the tax rate which is expected to be in force at the date of settlement.

M Comparative amounts

Comparative amounts are restated where necessary to conform to current presentation.

	1999/2000 £m	1998/9 £m
Profit earned for ordinary shareholders		
Group excluding joint ventures and associates	219.0	245.0
Joint ventures	(46.6)	(1.7)
Associates	7.3	5.3
Group including joint ventures and associates	<u>179.7</u>	<u>248.6</u>
Prior year adjustments for depreciation arising from the introduction of FRS 15	(141.3)	–
Premium on cancellation of preference stocks	(0.2)	–
Unrealised surplus on revaluation of fixed assets	–	7.3
	<u>38.2</u>	<u>255.9</u>
Currency translation differences on net foreign investment	3.0	(0.8)
Total gains and losses recognised since previous year end	<u>41.2</u>	<u>255.1</u>

Historical cost profits and losses
Year ended 4 March 2000

	1999/2000 £m	1998/9 (restated) £m
Reported profit before taxation	255.6	301.1
Realisation of revaluation gains/(deficits)	(7.0)	32.1
Difference between the historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	2.8	1.3
Historical cost profit before taxation	<u>251.4</u>	<u>334.5</u>
Historical cost profit for the year retained after taxation, minority interests and dividends	<u>29.0</u>	<u>123.1</u>

Notes	Group		Company		
	2000 £m	1999 (restated) £m	2000 £m	1999 (restated) £m	
	Fixed assets				
12	Intangible assets	157.7	8.5	–	–
13	Tangible assets	4,254.3	3,528.1	2,863.6	2,757.5
	Investments				
14	In subsidiaries	–	–	1,609.0	900.4
15	In joint ventures				
	Share of gross assets	235.3	302.8		
	Share of gross liabilities	(108.6)	(132.0)		
		126.7	170.8	106.6	161.9
16	In associates	50.0	43.9	53.3	52.9
17	Other investments	25.2	27.3	23.9	25.1
		<u>4,613.9</u>	<u>3,778.6</u>	<u>4,656.4</u>	<u>3,897.8</u>
	Current assets and liabilities				
18	Stocks	64.9	65.2	52.3	55.5
19	Debtors	351.0	190.5	156.8	159.2
	Cash at bank and in hand	123.1	48.3	41.0	32.2
		539.0	304.0	250.1	246.9
20	Creditors – amounts falling due within one year	(1,453.4)	(764.5)	(1,373.2)	(713.7)
	Net current liabilities	(914.4)	(460.5)	(1,123.1)	(466.8)
	Total assets less current liabilities	3,699.5	3,318.1	3,533.3	3,431.0
	Creditors – amounts falling due after more than one year				
21	Loan capital	(1,120.2)	(794.4)	(945.3)	(786.5)
23	Provisions for liabilities and charges	(31.9)	(28.4)	(17.6)	(17.3)
		<u>2,547.4</u>	<u>2,495.3</u>	<u>2,570.4</u>	<u>2,627.2</u>
	Capital and reserves				
24	Called up share capital	124.2	133.4	124.2	133.4
24	Share premium account	196.6	180.8	196.6	180.8
25	Revaluation reserve	669.1	661.5	652.1	653.2
25	Other reserves – non-distributable	(20.5)	10.9	20.8	314.0
25	Profit and loss account	1,572.7	1,506.6	1,576.7	1,345.8
26	Shareholders' funds	2,542.1	2,493.2	2,570.4	2,627.2
	Equity minority interests	2.2	2.1	–	–
	Non-equity minority interests	3.1	–	–	–
		<u>2,547.4</u>	<u>2,495.3</u>	<u>2,570.4</u>	<u>2,627.2</u>

D M Thomas
Director

A S Perelman
Director

3 May 2000

Notes		1999/2000		1998/9	
		£m	£m	£m	£m
27	Cash flow from operating activities		559.0		519.0
	Dividends received from joint ventures and associates		1.7		2.4
	Returns on investments and servicing of finance				
	Interest received	7.2		13.5	
	Interest paid	(86.2)		(79.6)	
	Other dividends received	0.1		0.1	
	Loan interest received	1.8		2.2	
	Preference dividends paid	(0.3)		(0.4)	
	Net cash outflow from returns on investments and servicing of finance		(77.4)		(64.2)
	Taxation				
	UK Corporation Tax paid		(52.8)		(72.5)
	Capital expenditure and financial investment				
	Property and plant purchased	(372.3)		(443.2)	
	Investments purchased and loans advanced	(12.2)		(10.7)	
	Property and plant sold	16.9		116.6	
	Investments sold and loans realised	22.9		14.9	
	Net cash outflow from capital expenditure and financial investment		(344.7)		(322.4)
	Acquisitions and disposals				
28	New businesses acquired	(632.4)		(3.2)	
29	Businesses sold	11.3		(6.6)	
	Net cash outflow from acquisitions and disposals		(621.1)		(9.8)
	Equity dividends paid		(139.3)		(130.4)
	Net cash outflow before use of liquid resources and financing		(674.6)		(77.9)
	Management of liquid resources				
30,31	Net movement on short-term securities and bank deposits		0.2		14.6
	Financing				
	Issue of shares	10.9		8.5	
	Repayment of preference stock	(10.0)		–	
30,31	Net movement on short-term bank borrowings	2.0		8.7	
30,31	Loan capital issued	1,070.2		64.3	
30,31	Loan capital repaid	(368.3)		(42.2)	
	Net cash inflow from financing		704.8		39.3
30,31	Increase/(decrease) in cash		30.4		(24.0)

1 Changes to accounting policies

FRS 15 (Tangible Fixed Assets) has been adopted in the year. Under previous accounting standards, where retail properties were maintained in such a state of repair that their residual value was at least equal to their net book value and the corresponding depreciation would not be material, depreciation need not be charged. However FRS 15 now requires that retail properties are disaggregated and that depreciation is charged on the separate components. The effects of this are as follows:

- Freehold and leasehold retail properties are now depreciated in accordance with the accounting policies set out on page 26.
- Fixtures and fittings in retail properties were previously included within retail property in the fixed assets note and furniture and equipment were included in plant and machinery. These two categories are now combined under the heading 'Retail furniture, fixtures and equipment' and depreciated in accordance with the accounting policies set out on page 26. As permitted by FRS 15, because the group's assets have been disaggregated into different components, with significantly differing economic lives for depreciation purposes, the above changes have been accounted for as prior year adjustments. An adjustment has been made to account for backlog depreciation on fixtures and fittings which would have been charged in previous years had the revised accounting policies been in place when the current fixed asset portfolio was acquired.

A consequence of a subsequent UITF abstract is that the restatement does not adjust 1998/9 to a comparable basis to 1999/2000. This arises in respect of retail freehold buildings and retail leasehold buildings where the lease has more than 20 years to run, for which there will be a depreciation charge for the first time in 1999/2000. Had the comparative amount been restated to a comparable basis, the depreciation charge for 1998/9 would have been increased by a further £12.1m.

- The implementation of FRS 15 has resulted in a backlog depreciation adjustment in respect of fixtures and fittings in industrial properties.

The effect of the changes on the balance sheet can be seen in notes 13 and 25. The effect on profit and net assets by segment is to reduce both as shown below. The effect of changing to a comparable basis is also shown.

	1999/2000		1998/9		1998/9 operating profit on comparable basis £m
	Operating profit £m	Net assets £m	Operating profit £m	Net assets £m	
Impact of FRS 15					
Beer	–	(3.1)	–	(3.1)	–
Pub Partnerships	(3.1)	(26.8)	(2.1)	(23.7)	(3.0)
Inns	(18.7)	(72.7)	(13.1)	(54.0)	(17.2)
Restaurants	(8.9)	(38.6)	(5.6)	(29.7)	(7.3)
Hotels	(5.7)	(24.5)	(0.3)	(18.8)	(4.0)
Sports, health and fitness	(6.4)	(17.6)	(2.5)	(11.2)	(3.8)
Other drinks	(0.4)	(0.4)	–	–	(0.4)
Central services	–	(0.8)	–	(0.8)	–
	(43.2)	(184.5)	(23.6)	(141.3)	(35.7)

FRS 16 (Current Tax) has been adopted, which has led to tax relief on the discount on shares issued to employees under share option schemes being accounted for in the profit and loss account rather than reserves as previously. The amount of the relief is £0.5m (1998/9 – £1.9m). Comparative amounts have been adjusted.

The company has amended its policy regarding the treatment of discounts and promotional costs. Costs previously classified within administration and other costs and cost of sales have been reclassified and deducted from turnover. The effect of this adjustment on the profit and loss account is to reduce turnover by £24.8m (1998/9 – £25.0m), administration and other costs by £17.7m (1998/9 – £15.2m) and cost of sales by £7.1m (1998/9 – £9.8m). The effect on the segmental analysis is to reduce turnover of Beer by £5.1m (1998/9 – £5.1m), Inns by £12.4m (1998/9 – £9.6m) and Restaurants by £7.7m (1998/9 – £10.3m), and to increase Sports, health and fitness by £0.4m (1998/9 – nil). There is no effect on operating profit. Comparative amounts for 1998/9 have been restated to reflect the revised policy.

2 Segmental analysis of turnover, profit and net assets

	1999/2000			1998/9 (restated)			
	Turnover £m	Operating profit £m	Net assets £m	Turnover £m	Operating profit £m	Pro forma comparable operating profit* £m	Net assets £m
By business segment							
Beer	1,116.0	46.5	298.9	1,053.5	51.6	51.6	304.9
Pub Partnerships	146.9	64.3	385.9	144.8	55.2	54.3	377.7
Inns	859.4	173.5	1,297.1	819.1	166.0	161.9	1,237.1
Restaurants	733.8	56.8	674.1	692.8	57.1	55.4	650.6
Hotels	287.5	53.7	1,184.0	222.8	47.7	44.0	540.3
Sports, health and fitness	103.6	23.0	405.1	78.0	18.8	17.5	263.2
Other drinks	656.7	14.4	131.6	647.7	19.0	18.6	176.6
Acquired business awaiting disposal (see note below)	10.8	1.3	129.6	–	–	–	–
Segmental turnover, operating profit and net assets	3,914.7	433.5	4,506.3	3,658.7	415.4	403.3	3,550.4
Inter-segment turnover (see note below)	(244.4)			(322.5)			
Share of joint ventures' turnover	(787.5)			(457.5)			
Central services	68.6	(18.0)	(237.7)	62.7	(16.8)	(16.8)	(186.8)
Allocation to Whitbread Share Ownership Scheme		(4.4)			(3.7)	(3.7)	
Exceptional items (note 4)		(78.5)			(29.8)	(29.8)	
	2,951.4	332.6	4,268.6	2,941.4	365.1	353.0	3,363.6
By geographical segment							
United Kingdom	2,880.5	327.6	4,249.5	2,870.5	359.7	347.6	3,340.6
Rest of the world	70.9	5.0	19.1	70.9	5.4	5.4	23.0
	2,951.4	332.6	4,268.6	2,941.4	365.1	353.0	3,363.6

*The pro forma comparable operating profit for 1998/9 is the restated 1998/9 figure adjusted to reflect the effect of FRS 15 as if it had been applied without the restriction of the subsequent UITF abstract (note 1).

The acquired business awaiting disposal relates to the pubs business acquired with Swallow Group plc.

Inter-divisional pricing for the supply of beer and related services has been rebased to reflect current conditions in the market. The impact of this in the current period is to reduce the profit of the Beer segment by £10.6m and to increase the profits of Pub Partnerships, Inns and Restaurants by £4.4m, £5.6m and £0.6m respectively. Comparative figures have not been changed.

The comparative turnover for Beer and the inter-segment turnover have both been increased by £50.3m to take account of inter-divisional sales previously excluded. The comparative turnover for Other drinks and the share of joint venture turnover have both been increased by £13.9m to take account of sales previously excluded.

The exceptional costs are detailed in note 4. The analysis is as follows:

	1999/2000 £m	1998/9 £m
Beer	–	16.6
Pub Partnerships, Inns and Restaurants [#]	10.3	–
Restaurants	7.2	13.2
Hotels	15.0	–
Other drinks	34.2	–
Central services	11.8	–
	78.5	29.8

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

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

Restaurants' segmental turnover includes the group's share of joint venture turnover amounting to £130.4m (1998/9 – £121.0m) and Other drinks turnover is derived wholly from the group's share of a joint venture (1998/9 – £335.6m). Inter-segment turnover is from Beer to the other segments. Central services turnover comprises, primarily, food distribution services provided to a joint venture. The geographical analysis of turnover and profit is by source. The analysis of turnover by destination is not materially different. Sales between geographical segments are not material. The results and net assets of the majority of Travel Inns are included in the divisions that operate them, not in Hotels. Net assets included above are total net assets excluding net debt.

In the profit and loss account, turnover of the group and share of joint ventures includes sales from the group to joint ventures amounting to £220.2m (1998/9 – £137.6m) and sales to the group from joint ventures amounting to £24.0m (1998/9 – £11.4m).

3 Profit and loss account details

	Continuing operations £m	Acquisitions £m	Before exceptional items £m	Exceptional items (note 4) £m	After exceptional items £m
1999/2000					
Turnover	2,909.6	41.8	2,951.4	–	2,951.4
Cost of sales	(2,165.1)	(26.9)	(2,192.0)	(13.1)	(2,205.1)
Gross profit	744.5	14.9	759.4	(13.1)	746.3
Distribution to customers	(56.8)	–	(56.8)	–	(56.8)
Administration and other costs	(307.4)	(6.4)	(313.8)	(31.2)	(345.0)
Operating profit before investment income	380.3	8.5	388.8	(44.3)	344.5
Dividends from unlisted investments	0.1	–	0.1	–	0.1
Interest on trade loans	0.2	–	0.2	–	0.2
Operating profit	380.6	8.5	389.1	(44.3)	344.8

Profit from acquisitions shown above excludes the group's share of the profit of an acquired joint venture, £0.1m. Included in exceptional items shown above are £4.8m, in cost of sales, and £10.2m, in administration and other costs, relating to acquisitions.

	Before exceptional items £m	Exceptional items (note 4) £m	After exceptional items £m
1998/9 (restated)			
Turnover	2,941.4	–	2,941.4
Cost of sales	(2,219.6)	(27.3)	(2,246.9)
Gross profit	721.8	(27.3)	694.5
Distribution to customers	(37.9)	(2.5)	(40.4)
Administration and other costs	(308.6)	–	(308.6)
Operating profit before investment income	375.3	(29.8)	345.5
Dividends from unlisted investments	0.1	–	0.1
Interest on trade loans	0.3	–	0.3
Operating profit	375.7	(29.8)	345.9

	1999/2000 £m	1998/9 (restated) £m
Included above are:		
Amortisation of intangible fixed assets (note 12)	1.8	0.5
Depreciation of tangible fixed assets (note 13)	160.0	133.7
Operating lease rentals:		
Hire of plant and machinery	16.7	17.4
Property	60.1	58.9
Research and development expenditure	2.0	3.3
Audit fees	0.8	0.8
Staff costs (note 6)	717.1	678.7

Fees paid to Ernst & Young for non-audit services in the UK, primarily in respect of corporate finance services, amounted to £1.3m (1998/9 – £0.3m).

4 Exceptional items

	1999/2000 £m	1998/9 £m
Restructuring/rationalisation costs	(14.4)	(16.6)
Impairment of leasehold properties	(7.2)	(13.2)
Integration costs	(15.0)	–
Abortive acquisition costs	(7.7)	–
Group excluding joint ventures and associates	(44.3)	(29.8)
Impairment of investment in First Quench	(34.2)	–
Charged against operating profit	(78.5)	(29.8)
Non-operating items		
Net profit on disposal of fixed assets		
Group excluding joint ventures and associates	5.4	14.0
Joint ventures	(0.1)	–
Loss on the disposal of businesses (note 29)	(1.8)	(17.9)
Share of First Quench's fundamental restructuring costs	(17.4)	(6.9)
	(92.4)	(40.6)

The restructuring costs in 1999/2000 mainly relate to the reorganisation of Pub Partnerships, Inns and Restaurants into the new Pubs & Bars and Restaurants divisions. The rationalisation costs in 1998/9 relate to the exit from two breweries and a regional distribution depot and customer service centre in the six months to 29 August 1998, plus a bottling plant in the second half of 1998/9. The integration costs relate to the acquisition of the Swallow Group plc. Abortive acquisition costs relate to the lapsed Allied Domecq Retailing offer.

5 Directors' emoluments

Details of directors' emoluments are disclosed in the Remuneration Report on pages 18 to 23.

6 Staff costs and numbers

	1999/2000 £m	1998/9 £m
Wages and salaries	642.3	617.0
Social security costs	47.9	47.5
Pension costs	26.9	14.2
	717.1	678.7

The principal group pension scheme, which is available to eligible UK full-time and part-time employees, is a funded, defined benefit scheme which is based on final pay levels. There is also a defined contribution scheme available to employees. Contributions to both schemes by both employees and group companies are held in externally invested, trustee-administered funds. Members of these schemes are contracted out of the State Earnings Related Pension Scheme. The total non-government pension cost for the group, including directors, is analysed below:

Funded schemes	25.9	13.4
Unfunded scheme	0.9	0.7
Overseas schemes	0.1	0.1
	26.9	14.2

The pension cost relating to the Whitbread Group Pension Fund is assessed in accordance with the advice of qualified actuaries, Bacon & Woodrow, using the projected unit credit valuation basis. The pension cost for the year has been based on the latest actuarial valuation which was carried out as at 31 March 1999. The main valuation assumptions were that the return on investments would be 4.25% per annum above inflation, that the annual increase in pensionable salaries (including promotional increases) would be 2.5% above inflation, that the annual increase in pensions in payment would average 0.25% below inflation and that dividend growth would be 1% above inflation. The average expected remaining service life of current employees is 10½ years. At the date of the valuation the market value of the fund's assets was £1,239m and the actuarial value of those assets represented 97% of the benefits that had accrued to the members. The contribution rate is designed to reduce the deficit to zero over the expected remaining service life of existing members. Membership of the fund at 4 March 2000 was 12,658 (1999 – 14,100).

The pension prepayment included in debtors (note 19) represents funding paid to the Whitbread Group Pension Fund in excess of the pension cost, plus interest thereon.

	1999/2000		1998/9	
	Full-time	Part-time	Full-time	Part-time
The average number of persons directly employed in the various sectors of the business was as follows:				
Beer	3,852	122	4,062	114
Pub Partnerships	208	12	234	7
Inns	16,420	17,190	16,379	17,962
Restaurants	15,094	8,170	14,717	8,479
Hotels	6,144	1,695	4,988	1,334
Sports, health and fitness	2,303	1,208	1,941	878
Other drinks	31	2	1,745	3,132
Acquired business awaiting disposal	118	374	–	–
Central services	107	8	120	8
	44,277	28,781	44,186	31,914
Excluded from the above segments are employees of joint ventures (not pro-rated to reflect percentage owned) as follows:				
Restaurants	2,879	11,626	3,495	9,957
Other drinks	5,775	11,381	3,691	4,870

7 Interest

	1999/2000 £m	1998/9 £m
Interest payable and similar charges		
Bank loans and overdrafts	42.1	38.5
Other	31.3	36.3
	<u>73.4</u>	<u>74.8</u>
Deduct:		
Interest receivable on short-term deposits	(7.2)	(13.5)
Interest receivable from joint ventures and associates	(1.6)	(1.9)
Interest capitalised	(5.4)	(10.8)
	<u>59.2</u>	<u>48.6</u>
Interest payable by:		
Joint ventures	1.9	2.0
Associates	2.0	2.6
	<u>63.1</u>	<u>53.2</u>

8 Taxation

Current taxation on profits for the year		
UK Corporation Tax at 30.08% (1998/9 – 31%)	81.9	73.3
Deferred tax (note 23)	(8.0)	–
Overseas tax	0.4	0.4
	<u>74.3</u>	<u>73.7</u>
Adjustments to earlier periods		
Corporation Tax	(4.6)	(3.9)
	<u>69.7</u>	<u>69.8</u>
Joint ventures	2.7	1.8
Associates	3.0	2.0
	<u>75.4</u>	<u>73.6</u>

The UK and joint venture Corporation Tax charges have been adjusted by £6.8m reduction and £1.1m increase respectively (1998/9 – £1.7m and £0.8m reduction) in respect of exceptional and non-operating items. The charge for UK Corporation Tax on operating profit has been relieved by £19.4m (1998/9 – £29.1m) in respect of accelerated capital allowances. No tax has been provided against profits or losses on properties, investments and businesses sold in the year as taxable gains will be rolled over or relieved by available tax losses. The tax as a percentage of profit before tax, excluding exceptional and non-operating items and the tax thereon, was 23.3% (1998/9 – 22.3%).

9 Profit earned for ordinary shareholders

The profit and loss account of the parent company is omitted from the group accounts by virtue of the exemption granted by section 230 of the Companies Act 1985. The profit earned for ordinary shareholders and included in the accounts of the parent company amounted to £87.4m (1998/9 – £169.0m).

10 Ordinary dividends

		1999/2000 £m	1998/9 £m
Interim	7.65 pence per share (1998/9 – 7.28 pence)	37.9	35.9
Proposed final	21.85 pence per share (1998/9 – 20.50 pence)	108.6	101.3
	29.50 pence per share (1998/9 – 27.78 pence)	146.5	137.2

11 Earnings per share

Basic earnings per share is calculated by dividing earnings for ordinary shareholders of £179.7m (1998/9 – £226.9m) by the weighted average number of ordinary shares in issue during the year, 495.3m (1998/9 – 492.3m). Adjusted basic earnings per share is calculated as follows:

	Earnings (£m)		Earnings per share (p)	
	1999/2000	1998/9 (restated)	1999/2000	1998/9 (restated)
Earnings and basic earnings per share	179.7	226.9	36.28	46.09
Earnings and basic earnings per share attributable to:				
Exceptional costs, net of tax	71.7	28.1	14.48	5.71
Non-operating items, net of tax	15.0	10.0	3.03	2.03
Adjust 1998/9 FRS 15 depreciation restatement to comparable basis (note 1)	–	(12.1)	–	(2.46)
Adjusted earnings and basic earnings per share	266.4	252.9	53.79	51.37

The adjusted earnings per share is presented so as to show more clearly the underlying performance of the group. Diluted earnings per share is the basic and adjusted basic earnings per share after allowing for the dilutive effect of the conversion into ordinary shares of the weighted average number of options outstanding during the period. The number of shares used for the diluted calculation is 496.7m (1998/9 – 497.2m).

12 Intangible fixed assets

Whitbread Group	Goodwill £m	Licences £m	Total £m
Cost 27 February 1999	–	10.0	10.0
Additions (note 28)	151.0	–	151.0
Cost 4 March 2000	151.0	10.0	161.0
Amortisation 27 February 1999	–	(1.5)	(1.5)
Amortisation for the period	(1.3)	(0.5)	(1.8)
Amortisation 4 March 2000	(1.3)	(2.0)	(3.3)
Net book amounts 4 March 2000	149.7	8.0	157.7
Net book amounts 27 February 1999	–	8.5	8.5

All goodwill is being amortised over 20 years, which is its estimated useful economic life.

13 Tangible fixed assets

	Manufacturing, logistics & administration		Retail		Total £m
	Land & buildings £m	Furniture, fixtures & equipment £m	Land & buildings £m	Furniture, fixtures & equipment £m	
Whitbread Group					
Cost or valuation 27 February 1999 – reanalysed	106.9	490.8	2,542.9	1,014.3	4,154.9
Foreign exchange movements	–	–	(5.0)	(2.4)	(7.4)
Businesses acquired	4.2	5.9	504.8	100.9	615.8
Additions	5.2	52.4	147.4	152.2	357.2
Interest capitalised	–	0.3	5.1	–	5.4
Businesses sold	–	–	(10.2)	(1.4)	(11.6)
Disposals	0.1	(33.9)	(11.2)	(29.1)	(74.1)
Cost or valuation 4 March 2000	116.4	515.5	3,173.8	1,234.5	5,040.2
Depreciation 27 February 1999 – reanalysed	(4.4)	(244.5)	(39.4)	(197.2)	(485.5)
Adjust for backlog depreciation as at 28 February 1998 (notes 1 and 25)	–	(3.1)	–	(114.6)	(117.7)
Adjust for 1998/9 depreciation (notes 1 and 25)	–	–	–	(23.6)	(23.6)
Depreciation 27 February 1999 – restated	(4.4)	(247.6)	(39.4)	(335.4)	(626.8)
Foreign exchange movements	–	–	2.1	1.8	3.9
Businesses acquired	–	(2.7)	(0.2)	(42.9)	(45.8)
Depreciation for the year	(2.9)	(40.1)	(20.1)	(96.9)	(160.0)
Businesses sold	–	–	–	0.3	0.3
Disposals	–	25.4	2.3	22.0	49.7
Impairment of leasehold properties	–	–	(7.2)	–	(7.2)
Depreciation 4 March 2000	(7.3)	(265.0)	(62.5)	(451.1)	(785.9)
Net book amounts 4 March 2000	109.1	250.5	3,111.3	783.4	4,254.3
Net book amounts 27 February 1999 – restated	102.5	243.2	2,503.5	678.9	3,528.1
Up to and including 1998/9 it was the group policy to revalue its UK properties, other than leasehold properties with a remaining term of less than 20 years. In 1999/2000 the group has adopted FRS 15 (Tangible Fixed Assets). The transitional provisions of FRS 15 have been applied and, whilst previous valuations have been retained, they have not been updated. From 1999/2000 it is group policy not to revalue fixed assets.					
If the revaluations up to 1998/9 had not taken place, the net book amounts of fixed assets would have been:					
Cost	96.5	515.5	2,539.0	1,234.5	4,385.5
Depreciation	(28.3)	(265.0)	(55.9)	(451.1)	(800.3)
Net book amounts 4 March 2000	68.2	250.5	2,483.1	783.4	3,585.2
Net book amounts 27 February 1999 – restated	60.3	243.2	1,884.2	678.9	2,866.6

13 Tangible fixed assets (continued)

Whitbread Group	Freehold £m	Long leasehold £m	Short leasehold £m	Total £m
Net book amounts of properties				
4 March 2000	2,419.7	663.9	136.8	3,220.4
27 February 1999 – restated	2,023.9	447.6	134.5	2,606.0
			2000 £m	1999 (restated) £m
Cost or valuation of properties				
As valued 1998/9			891.7	893.1
As valued 1997/8			432.4	440.5
As valued 1996/7			321.6	323.3
As valued 1995/6			295.6	296.5
As valued 1994/5			292.3	267.0
As valued 1993/4			13.0	13.1
As valued 1992/3			14.4	38.4
At cost			1,029.2	377.9
			3,290.2	2,649.8
Capital expenditure commitments for which no provision has been made			127.7	86.3

13 Tangible fixed assets (continued)

	Manufacturing, logistics & administration		Retail		Total £m
	Land & buildings £m	Furniture, fixtures & equipment £m	Land & buildings £m	Furniture, fixtures & equipment £m	
Whitbread PLC					
Cost or valuation 27 February 1999 – reanalysed	106.0	488.5	1,928.4	713.0	3,235.9
Additions	5.0	52.3	85.1	87.5	229.9
Interest capitalised	–	0.3	2.4	–	2.7
Disposals	0.1	(31.4)	(7.6)	(21.1)	(60.0)
Transfers (to)/from subsidiary undertakings	–	–	10.6	2.9	13.5
Cost or valuation 4 March 2000	111.1	509.7	2,018.9	782.3	3,422.0
Depreciation 27 February 1999 – reanalysed	(4.3)	(242.1)	(3.8)	(119.7)	(369.9)
Adjust for backlog depreciation as at 28 February 1998 (notes 1 and 25)	–	(3.1)	–	(85.4)	(88.5)
Adjust for 1998/9 depreciation (notes 1 and 25)	–	–	–	(20.0)	(20.0)
Depreciation 27 February 1999 – restated	(4.3)	(245.2)	(3.8)	(225.1)	(478.4)
Depreciation for the year	(2.9)	(40.1)	(8.9)	(67.2)	(119.1)
Disposals	–	22.9	0.1	17.3	40.3
Transfer to/(from) subsidiary undertakings	–	–	–	(1.2)	(1.2)
Depreciation 4 March 2000	(7.2)	(262.4)	(12.6)	(276.2)	(558.4)
Net book amounts 4 March 2000	103.9	247.3	2,006.3	506.1	2,863.6
Net book amounts 27 February 1999 – restated	101.7	243.3	1,924.6	487.9	2,757.5

Up to and including 1998/9 it was the company policy to revalue its UK properties, other than leasehold properties with a remaining term of less than 20 years. In 1999/2000 the company has adopted FRS 15 (Tangible Fixed Assets). The transitional provisions of FRS 15 have been applied and, whilst previous valuations have been retained, they have not been updated. From 1999/2000 it is company policy not to revalue fixed assets.

If the revaluations up to 1998/9 had not taken place, the net book amounts of fixed assets would have been:

Cost	91.1	509.7	1,408.6	782.3	2,791.7
Depreciation	(28.2)	(262.4)	(13.4)	(276.2)	(580.2)
Net book amounts 4 March 2000	62.9	247.3	1,395.2	506.1	2,211.5
Net book amounts 27 February 1999 – restated	59.5	243.3	1,313.6	487.9	2,104.3

13 Tangible fixed assets (continued)

Whitbread PLC	Freehold £m	Long leasehold £m	Short leasehold £m	Total £m
Net book amounts of properties				
4 March 2000	1,797.3	245.4	67.5	2,110.2
27 February 1999 – restated	1,720.8	242.3	63.2	2,026.3
			2000 £m	1999 (restated) £m
Cost or valuation of properties				
As valued 1998/9			332.8	334.2
As valued 1997/8			355.8	356.9
As valued 1996/7			240.6	242.4
As valued 1995/6			248.8	249.8
As valued 1994/5			254.7	255.9
As valued 1993/4			13.0	13.1
As valued 1992/3			11.7	11.8
At cost			672.6	570.3
			2,130.0	2,034.4
Capital expenditure commitments for which no provision has been made			72.0	63.6

14 Investment in subsidiary undertakings

Shares at or under cost			
27 February 1999		1,652.2	1,565.0
Foreign exchange movements		(7.8)	2.7
Additions		676.3	245.9
Disposal of Thresher		–	(127.9)
Other disposals		–	(2.2)
Dividend received from subsidiary, paid out of preacquisition profits		(215.6)	–
Impairment of investment in subsidiary undertakings		(120.5)	(31.3)
4 March 2000		1,984.6	1,652.2
Amounts due from subsidiary undertakings		316.4	205.2
Amounts due to subsidiary undertakings		(692.0)	(957.0)
		1,609.0	900.4

Principal subsidiary undertakings

	Principal activity	Country of incorporation or registration	Country of principal operations	% of equity and votes held
BrightReasons Group Ltd	Restaurants	England	England	100
Whitbread Restaurants Holdings GmbH	Restaurants	Germany	Germany	100
Country Club Hotels Ltd	Hotels	England	England	100
David Lloyd Leisure Ltd	Leisure	England	England	100
The Pelican Group PLC	Restaurants	England	England	100
Swallow Group plc	Hotels	England	England	100
Whitbread Hotels Ltd	Hotels	England	England	100

Shares in the above are all held directly by Whitbread PLC. All subsidiary undertakings have the same year end as Whitbread PLC. All the above companies have been included in the group consolidation. The companies listed above are those which materially affect the amount of profit and/or the assets of the group. A full list of subsidiary undertakings, joint ventures and associates will be annexed to the next annual return of Whitbread PLC to be filed with the Registrar of Companies in August 2000.

15 Unlisted investments in joint ventures

	Investment £m	Loans £m	Total £m
Whitbread Group			
Share of net assets 27 February 1999	142.5	28.3	170.8
Businesses acquired	2.8	–	2.8
Disposals	–	(0.1)	(0.1)
Impairment	(34.2)	–	(34.2)
Share of retained profits less losses	(12.5)	–	(12.5)
Other movements	(0.1)	–	(0.1)
Share of net assets 4 March 2000	98.5	28.2	126.7
Directors' valuation			
4 March 2000	121.6	28.2	149.8
27 February 1999	174.0	28.3	202.3
Whitbread PLC			
Cost 27 February 1999	133.7	28.2	161.9
Impairment	(55.3)	–	(55.3)
Net book value 4 March 2000	78.4	28.2	106.6
Directors' valuation			
4 March 2000	118.7	28.2	146.9
27 February 1999	173.9	28.2	202.1

Principal activity	Total equity par value (a) £m	Whitbread holding of (a)	Loans to joint ventures	
			2000 £m	1999 £m
Principal joint ventures				
First Quench Retailing Ltd				
Ordinary capital	100.3	50%	13.1	13.1
Preference capital	164.1	50%		
Pizza Hut (UK) Ltd	0.8	50%	15.1	15.1

The above companies are registered in England, which is also the main area of their operations. The investments are held directly by Whitbread PLC.

	2000 £m	1999 £m
Analysis of share of net assets		
Goodwill	–	5.0
Tangible fixed assets	119.3	147.1
Current assets	116.0	150.7
Liabilities due within one year	(94.0)	(132.0)
Liabilities due after one year	(14.6)	–
Net assets	126.7	170.8

16 Unlisted investments in associates

	Investment £m	Loans £m	Total £m
Whitbread Group			
Share of net assets 27 February 1999	39.8	4.1	43.9
Additions	–	0.5	0.5
Share of retained profits less losses	5.5	–	5.5
Other movements	–	0.1	0.1
Share of net assets 4 March 2000	45.3	4.7	50.0
Directors' valuation			
4 March 2000	80.7	4.7	85.4
27 February 1999	79.3	4.1	83.4
Whitbread PLC			
Cost 27 February 1999	48.8	4.1	52.9
Additions	–	0.4	0.4
Cost 4 March 2000	48.8	4.5	53.3
Directors' valuation			
4 March 2000	80.7	4.5	85.2
27 February 1999	79.3	4.1	83.4

Principal activity	Total equity par value (a) £m	Whitbread holding of (a)	Loans to associates	
			2000 £m	1999 £m
Britannia Soft Drinks Ltd	138.7	25%	–	–
Poles Ltd	3.1	26%	4.6	4.1

The above companies are registered in England, which is also the main area of their operations. The investments are held directly by Whitbread PLC.

17 Other investments

	Listed £m	Unlisted £m	Trade loans £m	Total £m
Whitbread Group				
Cost or valuation 27 February 1999	2.7	2.3	34.8	39.8
Businesses acquired	–	–	12.4	12.4
Additions	0.5	–	11.3	11.8
Disposals	(0.3)	(2.3)	(16.0)	(18.6)
Written off against provisions	–	–	(3.4)	(3.4)
Cost or valuation 4 March 2000	2.9	–	39.1	42.0
Amortisation/provisions 27 February 1999	(1.9)	–	(10.6)	(12.5)
Businesses acquired	–	–	(6.5)	(6.5)
Amortisation (see footnote)	(0.5)	–	–	(0.5)
Increase in provisions	–	–	(1.0)	(1.0)
Disposals	0.3	–	–	0.3
Written off against provisions	–	–	3.4	3.4
Amortisation/provisions 4 March 2000	(2.1)	–	(14.7)	(16.8)
Net book amounts 4 March 2000	0.8	–	24.4	25.2
Net book amounts 27 February 1999	0.8	2.3	24.2	27.3
Market value or directors' valuation				
4 March 2000	2.0	–	24.4	26.4
27 February 1999	3.1	4.0	24.2	31.3
Whitbread PLC				
Cost or valuation 27 February 1999	2.7	1.1	33.8	37.6
Additions	0.5	–	11.3	11.8
Disposals	(0.3)	(1.1)	(10.4)	(11.8)
Written off against provisions	–	–	(2.6)	(2.6)
Cost or valuation 4 March 2000	2.9	–	32.1	35.0
Amortisation/provisions 27 February 1999	(1.9)	–	(10.6)	(12.5)
Amortisation (see footnote)	(0.5)	–	–	(0.5)
Increase in provisions	–	–	(1.0)	(1.0)
Disposals	0.3	–	–	0.3
Written off against provisions	–	–	2.6	2.6
Amortisation/provisions 4 March 2000	(2.1)	–	(9.0)	(11.1)
Net book amounts 4 March 2000	0.8	–	23.1	23.9
Net book amounts 27 February 1999	0.8	1.1	23.2	25.1
Market value or directors' valuation				
4 March 2000	2.0	–	23.1	25.1
27 February 1999	3.1	4.0	23.2	30.3

Included in listed investments above are shares in Whitbread PLC purchased under the terms of the Long Term Incentive Plan (the 'Plan') and held by an employee share ownership trust ('ESOP'), which is independently managed. At 4 March 2000 the Plan owned 0.40m shares (1999 – 0.35m) the market value of which was £2.0m (1999 – £3.1m). The cost of the shares is being amortised over three years, which is the earliest date on which the shares could be transferred to the participants, and charged against operating profit. The market value has not been reduced in line with the amortisation. The ESOP has waived its right to dividends on these shares. Administration costs of the Plan are expensed as incurred. The operation of the Plan is more fully described in the Remuneration Report on pages 18 to 23.

18 Stocks

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Raw materials and consumables	12.6	15.0	10.9	14.0
Work in progress	5.1	6.0	4.9	5.3
Finished goods	47.2	44.2	36.5	36.2
	64.9	65.2	52.3	55.5

The estimated replacement cost of stocks is not materially different from the above carrying values.

19 Debtors

Trade debtors	105.1	90.0	80.9	76.9
Joint ventures	11.5	14.1	10.9	14.0
Associates	2.9	4.4	2.9	4.4
Assets held awaiting disposal	145.1	–	–	–
Other debtors	18.8	16.6	12.3	13.7
Prepayments and accrued income	58.5	58.7	49.8	50.2
Corporation Tax recoverable	9.1	6.7	–	–
	351.0	190.5	156.8	159.2

Included above are debtors not receivable within one year:

Pension prepayments	19.8	20.6	19.8	20.6
Assets held awaiting disposal	18.0	–	–	–
Other debtors	1.0	–	–	–
Corporation Tax recoverable	7.5	4.3	–	–
	46.3	24.9	19.8	20.6

20 Creditors – amounts falling due within one year

Loan capital (note 21)	564.7	10.0	555.3	5.2
Bank overdrafts	159.4	112.2	214.8	148.4
Trade creditors	201.1	183.0	167.5	161.5
Joint ventures	–	4.3	–	4.2
Associates	0.5	–	0.5	–
Corporation Tax	109.9	80.9	87.0	64.1
Other taxes and social security	56.3	52.5	46.3	45.9
Accruals and deferred income	135.5	128.8	91.3	104.9
Other creditors	117.5	91.5	102.0	78.2
Proposed final dividend on ordinary shares	108.5	101.3	108.5	101.3
	1,453.4	764.5	1,373.2	713.7

21 Loan capital

Whitbread PLC	Repayment dates	Interest rates	2000 £m	1999 £m
Secured:				
Debenture stock, redeemable by instalments at par by operation of annual sinking fund	2000 to 2004	4.5%	1.4	1.4
Redeemable debenture stock (nominal value £200.5m (1999 – £200.5m))	2011	11.625%*#	212.1	212.7
Redeemable debenture stock (nominal value £100.0m)	2021	8.125%*	100.0	100.0
Unsecured:				
Revolving credit facility	2001	Variable	192.9	340.9
Bank loan	2001	Variable	484.7	–
Loan notes	2000 to 2002	Variable	1.3	1.6
Bank loan	2000	Variable	–	27.1
Loan notes	2000 to 2003	Variable	26.1	–
Bank loan	2003	Variable	374.2	–
Bank loans financing loans to customers	2000	Variable	–	0.1
Loan stocks	2000 to 2005	10.5%	7.4	7.4
Bonds (nominal value £100.0m)	2007	8.25%#	99.2	99.2
Irredeemable loan stock		5.75%	1.3	1.3
Total – Whitbread PLC			1,500.6	791.7
Subsidiary undertakings				
Secured:				
Other loans	2000 to 2008	Variable	8.0	6.6
Bank loan	Not fixed	Variable	6.1	–
Bank loan	2000 to 2009	8%	4.8	5.6
Debenture (nominal value £10.0m)	2010	11.75%#	13.4	–
Debenture (nominal value £25.0m)	2015	9.875%#	33.4	–
Debenture (nominal value £80.0m)	2019	10.75%#	118.1	–
Debenture	Not fixed	Nil	0.5	0.5
Whitbread Group			1,684.9	804.4

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

#The interest rates quoted relate to the nominal values rather than the carrying values.

*The company has entered into agreements which swap the fixed interest rate of £185.0m nominal value (£191.7m including premium) of the 11.625% debenture stock for variable rates until 2011, and the fixed interest rate of the 8.125% debenture stock for variable rates until 2021.

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Summarised as follows:				
Repayable:				
In one year or less, or on demand	562.6	6.5	555.1	1.7
In more than one year, but not more than two	150.2	341.2	150.0	341.0
In more than two years, but not more than five	377.8	14.1	376.4	12.8
In more than five years – repayable by instalments	3.5	5.8	–	1.4
– other	530.8	411.1	409.1	409.1
Total loans	1,624.9	778.7	1,490.6	766.0
Premiums, issue costs, etc.	60.0	25.7	10.0	25.7
	1,684.9	804.4	1,500.6	791.7
Deduct falling due within one year (note 20)	(564.7)	(10.0)	(555.3)	(5.2)
Falling due after more than one year	1,120.2	794.4	945.3	786.5

The total of instalment loans, any part of which falls due after more than five years, amounts to £6.2m (1999 – £7.1m). Included within amounts repayable under one year, between one and two years and between two and five years are advances of £527.7m, £150.0m and £375.0m respectively (1999 – nil, £341.0m and nil respectively) which are repayable in less than one year. These advances were made under credit facility agreements with original lives of from 18 months to five years. Under the terms of the agreement, the participating banks are obliged, on demand, to refinance any amounts falling due for repayment until expiry of the facility. Details of unused committed facilities are disclosed in the Operating and Finance Review. Overdrafts, which are all repayable within one year, are disclosed in note 20.

21 Loan capital (continued)

	27 February 1999 £	Redeemed during year £	4 March 2000 £	3 May 2000 £
Redeemable debenture stock outstanding				
4.5% 1999/2004	<u>1,383,914</u>	<u>–</u>	<u>1,383,914</u>	<u>1,383,914</u>

22 Financial instruments

The group's objectives and policies on the use of financial instruments, including derivatives, can be found in the Operating and Finance Review. Amounts dealt with in this note exclude short-term assets and liabilities except cash, overdrafts and loan capital repayable in one year or less.

Analysis of interest rate exposure and currency of net debt

	Total net debt £m	Cash [†] £m	Overdrafts [†] £m	Loan capital [‡]			Weighted averages re fixed rate debt [#]	
				Floating rate [§] £m	Interest free £m	Fixed rate £m	Interest rate	Period rate is fixed for
2000								
Sterling	1,680.7	(115.8)	159.4	1,174.4	0.5	462.2	7.1%	10.9 years
Deutschmark	40.9	(6.9)	–	43.0	–	4.8	8.0%	9.8 years
Other currencies	(0.4)	(0.4)	–	–	–	–	–	–
Net debt (note 30)	<u>1,721.2</u>	<u>(123.1)</u>	<u>159.4</u>	<u>1,217.4</u>	<u>0.5</u>	<u>467.0</u>		
1999								
Sterling	819.3	(39.4)	111.5	449.4	0.5	297.3	7.5%	7.8 years
Deutschmark	50.5	(6.7)	–	51.6	–	5.6	8.0%	10.8 years
Other currencies	(1.5)	(2.2)	0.7	–	–	–	–	–
Net debt (note 30)	<u>868.3</u>	<u>(48.3)</u>	<u>112.2</u>	<u>501.0</u>	<u>0.5</u>	<u>302.9</u>		

[†]Interest on cash on deposit and overdrafts is based on floating rates linked to LIBOR.

[§]Interest rates on floating rate loans are all linked to LIBOR.

[‡]The analysis of fixed and floating rates takes account of interest rate swaps.

[#]The weighted averages for fixed rate debt exclude loans swapped to variable and the irredeemable loan stock.

For 1999, the preference stocks were excluded from the above analysis and were detailed in note 24.

In addition the group has purchased interest rate caps with an aggregate notional principal of £70.0m (1999 – £70.0m) and an average strike rate of 8.4% (1999 – 8.4%). The weighted average life of these contracts is 1.2 years (1999 – 2.2 years).

Fair values of financial instruments	Carrying values		Fair values	
	2000 £m	1999 £m	2000 £m	1999 £m
Short-term borrowings less cash and deposits	<u>36.3</u>	63.9	<u>36.3</u>	63.9
Loan capital	<u>1,684.9</u>	804.4	<u>1,788.3</u>	933.7
Derivatives relating to loan capital				
Interest rate swaps	–	–	(85.7)	(95.8)
Currency swaps	–	–	–	13.8

The fair value of debt and derivative instruments is calculated by discounting all future cash flows by the market yield curve at the balance sheet date. Currency derivatives are translated into sterling at the rates of exchange quoted at the balance sheet dates.

22 Financial instruments (continued)

Functional currencies of group operations

Monetary assets and liabilities denominated in currencies other than the functional currency of the entity owning them, and excluding currency funding for overseas net investments, which is dealt with in the statement of total recognised gains and losses, are not material.

Hedges

Profits and losses on financial instruments used for hedging are recognised when the exposure that is being hedged is recognised. Unrecognised and deferred profits and losses on financial instruments used for hedging are as follows:

	Gains	
	1999/2000 £m	1998/9 £m
Gains and losses unrecognised at 4 March 2000	85.7	110.6
Of which:		
Gains and losses expected to be recognised in the profit and loss account in the following year	8.1	9.3
Gains and losses in the profit and loss account that arose in previous years	9.3	6.4

Comparative values have been restated to treat as hedges the swaps entered into at the same time as debenture stocks were issued (note 21).

23 Provisions for liabilities and charges

	Acquisition and disposal £m	Deferred tax £m	Reorganisation £m	Onerous contracts £m	Total £m
Whitbread Group					
27 February 1999	6.6	8.0	5.8	8.0	28.4
Created					
In connection with businesses acquired (note 4)	–	–	15.0	–	15.0
Other (note 4)	–	–	14.4	–	14.4
Used	(6.6)	(8.0)	(8.5)	(2.8)	(25.9)
4 March 2000	–	–	26.7	5.2	31.9
Whitbread PLC					
27 February 1999	–	8.0	5.8	3.5	17.3
Created					
In connection with businesses acquired	–	–	3.3	–	3.3
Other	–	–	11.9	–	11.9
Used	–	(8.0)	(6.7)	(0.2)	(14.9)
4 March 2000	–	–	14.3	3.3	17.6

Provisions have not been discounted because the effect was not material. It is expected that the majority of the reorganisation provision will be used within one year of the balance sheet date.

Deferred tax

The potential amount of deferred taxation not provided for in these accounts in respect of accelerated capital allowances is £241.2m (1999 – £222.1m). The potential amount for Whitbread PLC is £162.3m (1999 – £150.5m). No provision has been made for tax on any gains which might arise in the event of properties being sold at their revalued amounts, as in the ordinary course of business the majority of properties would be retained indefinitely. The potential amount of deferred taxation not provided in respect of any gains which might arise in the event of investments being sold at their valuation amounts is nil (1999 – £9.8m) for both group and Whitbread PLC. No provision has been made for any additional liability to UK or overseas taxation on the distribution of unappropriated profits or reserves of certain associated undertakings and overseas subsidiaries, except to the extent that such distributions are expected.

24 Share capital

	Authorised		Allotted, called up and fully paid	
	2000 £m	1999 £m	2000 £m	1999 £m
Non-equity share capital				
Preference stocks				
4.5% first cumulative	–	0.6	–	0.6
4.5% second cumulative	–	0.4	–	0.4
5.5% third cumulative	–	2.1	–	2.1
6% third cumulative	–	3.7	–	3.7
7% third cumulative	–	3.0	–	3.0
	–	9.8	–	9.8
Equity share capital				
Ordinary shares of 25p each	262.5	176.0	124.2	123.6
	262.5	185.8	124.2	133.4

The preference stock in issue was repaid on 28 July 1999. At 27 February 1999, 9.8m was in issue. There were 496.7m ordinary shares in issue at 4 March 2000 (1999 – 494.3m).

	Share capital £m	Share premium £m
Ordinary shares		
27 February 1999	123.6	180.8
Movements during the year:		
Issued to employees by exercise of options	0.5	11.9
Issued to employees under Share Ownership Scheme	0.1	3.9
4 March 2000	124.2	196.6

At 4 March 2000 there were outstanding options for employees to purchase up to 14.7m (1999 – 14.5m) ordinary shares of 25p each between 2000 and 2009 at prices ranging between 416.2 pence per share and 1101.0 pence per share. During the year to 4 March 2000 options on 2.0m (1998/9 – 1.8m) ordinary shares of 25p each, fully paid, were exercised by employees under the terms of various share option schemes and the directors exercised their discretion under the Share Ownership Scheme to issue 0.4m (1998/9 – 0.5m) ordinary shares of 25p each, fully paid, to the trustees of the scheme.

Note

Following the acquisition by the company of Whitbread Investment Company Limited ('WIC', formerly Whitbread Investment Company, PLC) in November 1993, WIC's interests in 43,991,286 ordinary shares (representing 8.4% of the issued share capital of the company at that time) were effectively cancelled. WIC's shareholding will not be sold outside the Whitbread Group in any circumstances. Neither WIC nor any other member of the Whitbread Group is permitted to exercise the voting rights attaching to the shares under any circumstances and all dividends on these shares have been waived. The shares have therefore been treated as cancelled and excluded from the issued share capital of the company.

25 Reserves

	Revaluation reserve £m	Other non- distributable reserves £m	Profit & loss account £m	Joint ventures & associates £m	Total £m
Whitbread Group					
27 February 1999 as published	661.5	11.0	1,647.9	(0.1)	2,320.3
Adjust for backlog depreciation as at 28 February 1998 (notes 1 and 13)			(117.7)		(117.7)
Adjust for backlog depreciation for 1998/9 (notes 1 and 13)			(23.6)		(23.6)
27 February 1999 – restated	661.5	11.0	1,506.6	(0.1)	2,179.0
Currency translation differences	0.8		2.2		3.0
Profit retained			74.4	(41.2)	33.2
Discount on shares issued to employees under share option schemes			(1.5)		(1.5)
Realised revaluation deficit transferred to the profit and loss account	7.0		(7.0)		–
Cancellation of preference stock		9.8	(10.0)		(0.2)
Goodwill on disposals (note 29)			8.1		8.1
Other movements	(0.2)		(0.1)		(0.3)
4 March 2000	669.1	20.8	1,572.7	(41.3)	2,221.3
Whitbread PLC					
27 February 1999 as published	653.2	314.0	1,454.3		2,421.5
Adjust for backlog depreciation as at 28 February 1998 (notes 1 and 13)			(88.5)		(88.5)
Adjust for backlog depreciation for 1998/9 (notes 1 and 13)			(20.0)		(20.0)
27 February 1999 – restated	653.2	314.0	1,345.8		2,313.0
Currency translation differences			(2.4)		(2.4)
Loss retained			(59.1)		(59.1)
Discount on shares issued to employees under share option schemes			(1.5)		(1.5)
Realised revaluation surplus transferred to the profit and loss account	(0.9)		0.9		–
Realised merger reserve transferred to the profit and loss account		(303.0)	303.0		–
Cancellation of preference stock		9.8	(10.0)		(0.2)
Other movements	(0.2)				(0.2)
4 March 2000	652.1	20.8	1,576.7		2,249.6
	Group		Company		
	2000	1999	2000	1999	
	£m	£m	£m	£m	
Analysis of other non-distributable reserves					
Merger reserve	–	–	–		303.0
Capital redemption reserve fund	20.8	11.0	20.8		11.0
	20.8	11.0	20.8		314.0

The merger reserve in Whitbread PLC has been transferred to distributable reserves as a result of the investments to which it relates having been realised.

Goodwill

	£m
Net amount written off against reserves to 27 February 1999	592.1
Disposal	(8.1)
Net amount written off against reserves to 4 March 2000	584.0

26 Shareholders' funds

	2000 £m	1999 £m
Movements in shareholders' funds		
Shareholders' funds at 27 February 1999 as published	2,634.5	2,477.3
Adjust for the implementation of FRS 15	(141.3)	(117.7)
Shareholders' funds at 27 February 1999 – restated	2,493.2	2,359.6
Profit earned for ordinary shareholders	179.7	226.9
Dividends	(146.5)	(137.2)
	33.2	89.7
Revaluation of tangible fixed assets	–	7.3
Other recognised gains and losses relating to the year	3.0	(0.8)
Goodwill on disposal	8.1	24.3
Other reserve movements	(0.3)	(0.1)
Share capital issued	14.9	13.2
Cancellation of preference stock	(10.0)	–
Shareholders' funds at 4 March 2000	2,542.1	2,493.2
Analysis of shareholders' funds		
Equity shareholders' funds	2,542.1	2,483.4
Non-equity shareholders' funds	–	9.8
	2,542.1	2,493.2

27 Net cash inflow from operating activities

	1999/2000 £m	1998/9 (restated) £m
Group operating profit	344.8	345.9
Investment income	(0.3)	(0.4)
Depreciation/amortisation	161.8	134.2
Impairment of leasehold properties	7.2	13.2
Movement on provisions	17.7	4.8
Other non-cash items	20.0	15.5
Decrease in stocks	3.2	32.2
Increase in debtors	(5.7)	(25.6)
Increase/(decrease) in creditors	10.3	(0.8)
Cash flow from operating activities	559.0	519.0

28 Acquisitions

	Book value of assets acquired £m	Fair value adjustments		Assets acquired at fair value £m
		Revaluations £m	Accounting policy changes £m	
Tangible fixed assets	556.2	13.8	–	570.0
Investments	9.9	(1.2)	–	8.7
Net working capital, excluding cash	(29.5)	(3.4)	(2.0)	(34.9)
Assets held awaiting disposal	109.1	34.8	–	143.9
Cash and overdrafts	26.5	–	–	26.5
Loan capital	(122.5)	(50.3)	–	(172.8)
Taxation	(3.9)	2.0	–	(1.9)
Minority interests	(3.1)	–	–	(3.1)
Net assets acquired	542.7	(4.3)	(2.0)	536.4
Goodwill (note 12)				151.0
Cost of new businesses				687.4
			1999/2000 £m	1998/9 £m

Cash outflow in respect of new businesses acquired

Cost of acquisitions	687.4	–
Deferred consideration	(11.7)	–
Payments in respect of previous years' acquisitions	0.1	3.2
Swallow dividend paid to Swallow shareholders	9.2	–
Loan stock issued as consideration	(26.1)	–
Cash and overdrafts of businesses acquired	(26.5)	–
Cash outflow	632.4	3.2

The acquisitions included above comprise principally: Racquets & Healthtrack Group Ltd (acquired 30 September 1999), and Swallow Group plc (acquired 6 January 2000). A review of properties acquired has been carried out by qualified surveyors. Retained properties have been revalued to their existing use value and properties for disposal, which are included in debtors, have been valued at their estimated net realisable value. Debentures with fixed interest rate coupons have been revalued to fair value. The values of other assets and liabilities have been adjusted to amounts estimated to be realised or paid respectively.

Details of Swallow Group plc are shown below:

Swallow Group plc	Book value of assets acquired £m	Fair value adjustments		Assets acquired at fair value £m
		Revaluations £m	Accounting policy changes £m	
Tangible fixed assets	486.5	–	–	486.5
Investments	9.9	(1.2)	–	8.7
Net working capital, excluding cash	(27.0)	(2.5)	–	(29.5)
Assets held awaiting disposal	109.1	34.8	–	143.9
Cash and overdrafts	25.2	–	–	25.2
Loan capital	(122.5)	(50.3)	–	(172.8)
Taxation	(3.9)	–	–	(3.9)
Minority interests	(3.1)	–	–	(3.1)
Net assets acquired	474.2	(19.2)	–	455.0
Goodwill				142.8
Cost of new business				597.8
				£m

Pre-acquisition profit details are as follows:

Profit after exceptional items and tax for Swallow's financial year prior to acquisition, ended 30 September 1999	35.3
Profit after exceptional items and tax for the period from Swallow's previous financial year end to the date of acquisition	7.5

The above profit and loss numbers were prepared on the basis of accounting policies prior to acquisition.

Contribution to cash flows from the date of acquisition to 4 March 2000:

Operating cash outflow	(3.2)
Investing cash inflow	2.1
Ordinary dividend paid	(9.2)
Financing cash outflow	(0.2)

29 Disposals

	1999/2000 £m
Tangible fixed assets	11.3
Net working capital, excluding cash and overdraft	(0.1)
Cash and overdraft	(0.1)
Carrying value of net assets	11.1
Goodwill written back (note 25)	8.1
Provided in 1998/9	(6.2)
Loss on disposal	(1.8)
Net sale proceeds	11.2
Cash and overdraft on disposal	0.1
Cash inflow	11.3

The above relates to the disposal of Gatehouse Nurseries on 28 May 1999. The loss in the profit and loss account for 1998/9 comprises the provision for Gatehouse Nurseries included in the above table (£6.2m) and the loss on disposal of Thresher to First Quench (£11.7m).

30 Balance sheet movements in cash and net debt

1999/2000	1999 £m	Acquisitions excluding cash and overdrafts £m	Cash flow £m	Foreign exchange £m	Amortisation of premiums and discounts £m	2000 £m
Cash at bank and in hand	48.3					123.1
Overdrafts (note 20)	(112.2)					(159.4)
	(63.9)	–	28.2	(0.6)	–	(36.3)
Less short-term securities, bank deposits and borrowings	55.2	–	2.2	–	–	57.4
Cash	(8.7)	–	30.4	(0.6)	–	21.1
Short-term securities and bank deposits	10.8	–	(0.2)	–	–	10.6
Short-term bank borrowings	(66.0)	–	(2.0)	–	–	(68.0)
Loan capital under one year	(10.0)					(564.7)
Loan capital over one year	(794.4)					(1,120.2)
Total loan capital (note 21)	(804.4)	(198.8)	(701.9)	5.3	14.9	(1,684.9)
Net debt	(868.3)	(198.8)	(673.7)	4.7	14.9	(1,721.2)

1998/9	1998 £m	Acquisitions excluding cash and overdrafts £m	Cash flow £m	Foreign exchange £m	Amortisation of premiums and discounts £m	1999 £m
Cash at bank and in hand	72.5					48.3
Overdrafts (note 20)	(89.3)					(112.2)
	(16.8)	–	(47.3)	0.2	–	(63.9)
Less short-term securities, bank deposits and borrowings	31.9	–	23.3	–	–	55.2
Cash	15.1	–	(24.0)	0.2	–	(8.7)
Short-term securities and bank deposits	25.4	–	(14.6)	–	–	10.8
Short-term bank borrowings	(57.3)	–	(8.7)	–	–	(66.0)
Loan capital under one year	(10.3)					(10.0)
Loan capital over one year	(772.9)					(794.4)
Total loan capital (note 21)	(783.2)	–	(22.1)	(2.2)	3.1	(804.4)
Net debt	(800.0)	–	(69.4)	(2.0)	3.1	(868.3)

31 Reconciliation of net cash flow to movement in net debt

	1999/2000 £m	1998/9 £m
Increase/(decrease) in cash in the period	30.4	(24.0)
Cash inflow from movement in loan capital	(701.9)	(22.1)
Cash inflow from movement in liquid resources	(0.2)	(14.6)
Cash inflow from movement in short-term borrowings	(2.0)	(8.7)
Changes in net debt resulting from cash flows	<u>(673.7)</u>	<u>(69.4)</u>
Loan capital issued in connection with acquisitions	(26.1)	–
Loan capital acquired with acquisitions	(172.7)	–
Foreign exchange movements	4.7	(2.0)
Amortisation of premiums and discounts	14.9	3.1
Movement in net debt in the period	<u>(852.9)</u>	<u>(68.3)</u>
Opening net debt	<u>(868.3)</u>	<u>(800.0)</u>
Closing net debt	<u>(1,721.2)</u>	<u>(868.3)</u>

32 Related parties

Material transactions with related parties consisted of purchases of soft drinks from Britannia Soft Drinks Ltd amounting to £16.7m (1998/9 – £17.1m), sales of food and drink to Pizza Hut (UK) Ltd amounting to £63.5m (1998/9 – £60.2m), sales of drinks to First Quench Retailing Ltd of £155.8m (1998/9 – £77.4m) and purchases of drinks from First Quench Retailing Ltd of £48.0m (1998/9 – £22.8m). Details of loans to joint ventures and associates are shown in notes 15 and 16. Transactions with directors can be found in the Remuneration Report on pages 18 to 23.

33 Contingent liabilities

There were no material contingent liabilities at 4 March 2000 or 27 February 1999.

34 Lease commitments

	Property £m	Plant & machinery £m	2000 Total £m	Property £m	Plant & machinery £m	1999 Total £m
Whitbread Group						
Annual payments under operating leases which expire:						
Within one year	2.3	2.2	4.5	1.6	2.5	4.1
Between one and five years	9.4	11.7	21.1	7.0	8.9	15.9
After five years	50.9	2.1	53.0	45.7	0.8	46.5
	<u>62.6</u>	<u>16.0</u>	<u>78.6</u>	<u>54.3</u>	<u>12.2</u>	<u>66.5</u>
Whitbread PLC						
Annual payments under operating leases which expire:						
Within one year	0.7	2.0	2.7	0.3	2.2	2.5
Between one and five years	0.8	10.5	11.3	1.4	8.2	9.6
After five years	24.0	1.6	25.6	19.2	0.2	19.4
	<u>25.5</u>	<u>14.1</u>	<u>39.6</u>	<u>20.9</u>	<u>10.6</u>	<u>31.5</u>

35 Foreign exchange rates

The average deutschmark exchange rate used during the year was 3.031 (1998/9 – 2.889) and the closing rate was 3.216 (1999 – 2.854).

Profit and loss account (£m)	1995/6	1996/7	1997/8	1998/9 [†]	1999/2000
Turnover of group and joint ventures	2,840.2	3,131.0	3,313.3	3,398.9	3,738.9
Group turnover	2,749.9	3,027.2	3,198.2	2,941.4	2,951.4
Operating profit before exceptional items	305.7	356.1	404.4	394.9	411.1
Operating profit as % of turnover of group and joint ventures	10.8%	11.4%	12.2%	11.6%	11.0%
Profit before exceptional items and tax	283.1	316.5	354.8	341.7	348.0
Profit before tax	285.7	302.8	380.9	301.1	255.6
Basic earnings per share (pence)	46.08	50.84	61.42	46.09	36.28
Adjusted basic earnings per share (pence)	43.25	48.78	56.08	51.37	53.79
Ordinary dividends per share (pence)	21.85	23.80	26.02	27.78	29.50
Interest cover (times covered) [#]	13.5	9.0	8.2	7.4	6.5
Adjusted ordinary dividend cover (times covered) [*]	2.0	2.0	2.2	1.9	1.8
Average number of employees – full-time	38,158	44,073	45,438	44,186	44,277
– part-time	32,436	36,001	35,937	31,914	28,781

Notes

Changes in accounting policies have, where material, been reflected in prior years, except FRS 15, see [†] below.

[†]1998/9 has been adjusted for the increased depreciation charge resulting from the introduction of FRS 15. Prior years have not been adjusted. A line in the table is to indicate that the earlier years are not comparable.

[#]Calculated by reference to operating profit before exceptional items.

^{*}Calculated by reference to adjusted basic earnings per share.

Balance sheet (£m)	1996	1997	1998	1999	2000
Intangible fixed assets	–	–	–	8.5	157.7
Tangible fixed assets [#]	2,958.3	3,247.5	3,563.7	3,528.1	4,254.3
Investments	112.6	105.2	103.2	242.0	201.9
Total fixed assets	3,070.9	3,352.7	3,666.9	3,778.6	4,613.9
Current assets	464.0	489.7	453.0	304.0	539.0
Creditors – amounts falling due within one year	(736.0)	(771.4)	(858.3)	(764.5)	(1,453.4)
Net current liabilities	(272.0)	(281.7)	(405.3)	(460.5)	(914.4)
Total assets less current liabilities	2,798.9	3,071.0	3,261.6	3,318.1	3,699.5
Creditors – amounts falling due after more than one year	(529.7)	(794.1)	(772.9)	(794.4)	(1,120.2)
Provisions for liabilities and charges	(12.0)	(12.4)	(9.4)	(28.4)	(31.9)
	2,257.2	2,264.5	2,479.3	2,495.3	2,547.4
Called up share capital	130.6	131.7	132.8	133.4	124.2
Share premium account	125.6	142.2	162.1	180.8	196.6
Reserves [#]	1,996.1	1,988.8	2,182.4	2,179.0	2,221.3
Shareholders' funds	2,252.3	2,262.7	2,477.3	2,493.2	2,542.1
Minority interests	4.9	1.8	2.0	2.1	5.3
	2,257.2	2,264.5	2,479.3	2,495.3	2,547.4
Net debt [*]	501.9	793.9	800.0	868.3	1,721.2
Gearing (%) [†]	22.2	35.1	32.3	34.8	67.6
Net asset value per ordinary share (pence)	464.0	461.9	501.5	502.4	511.8

Notes

[#]Fixed assets and reserves in 1999 have been adjusted for the increased depreciation resulting from the introduction of FRS 15. Prior years have not been adjusted.

^{*}Net debt is loan capital and bank overdrafts less cash at bank and in hand (notes 30 and 31).

[†]Gearing represents net debt expressed as a percentage of shareholders' funds and minority interests.

Cash flow (£m)	1995/6	1996/7	1997/8	1998/9	1999/2000
Cash flow from operating activities	413.2	434.5	528.9	519.0	559.0
Dividends from joint ventures and associates	3.8	2.2	2.0	2.4	1.7
Returns on investments and servicing of finance	(20.5)	(39.9)	(55.8)	(64.2)	(77.4)
Taxation	(49.3)	(61.9)	(55.1)	(72.5)	(52.8)
Capital expenditure and financial investments [§]	(264.2)	(335.1)	(331.4)	(322.4)	(344.7)
Acquisitions and disposals [‡]	(385.2)	(183.2)	(3.9)	(9.8)	(621.1)
Equity dividends paid	(94.1)	(102.7)	(107.7)	(130.4)	(139.3)
Net cash outflow before financing	(396.3)	(286.1)	(23.0)	(77.9)	(674.6)
Management of liquid resources	199.7	27.8	8.0	14.6	0.2
Financing	175.0	264.8	12.9	39.3	704.8
Increase/(decrease) in cash	(21.6)	6.5	(2.1)	(24.0)	30.4
§Capital expenditure and financial investment					
Property and plant purchased	(333.9)	(409.4)	(461.9)	(443.2)	(372.3)
Property and plant sold	30.5	61.1	117.9	116.6	16.9
Net investment and loan decrease	17.9	13.2	12.6	4.2	10.7
Net disposals of non-trading investments	21.3	–	–	–	–
	(264.2)	(335.1)	(331.4)	(322.4)	(344.7)
‡Acquisitions and disposals					
New businesses acquired	(393.4)	(183.2)	(30.1)	(3.2)	(632.4)
Businesses sold	8.2	–	26.2	(6.6)	11.3
	(385.2)	(183.2)	(3.9)	(9.8)	(621.1)

Accelerated capital allowances

Timing differences which arise from the availability of tax relief on fixed assets in advance of the related charges for depreciation

Achieved room rate

Hotel accommodation income divided by the number of rooms occupied by guests

Adjusted turnover

Turnover adjusted so as to give year over year comparability

Associate

A company over which Whitbread exercises a significant influence

Bond

Debt issued by a company with a maturity of five years or more. Bonds are negotiable instruments, usually quoted on the London Stock Exchange

Capital expenditure

Investment in new property and plant

Capital receipts

Proceeds from disposals of property and plant

Capitalised interest

Financing costs, incurred by Whitbread in relation to the construction of a fixed asset (see below), which have been added to the carrying value of the asset in the balance sheet

Creditors

Amounts due to suppliers and others

Debenture

A bond (see above) where the company's obligation to pay interest and repay the principal of the debt are secured on all or a proportion of the company's assets

Debtors

Amounts due from customers and others, plus payments in advance

Deferred tax

Tax which relates to timing differences between profit as calculated for accounting and for tax purposes

Depreciation

A charge made against profits to reflect the wearing out, consumption and obsolescence of fixed assets (see below)

Derivative

A financial instrument (e.g. an interest rate swap) that derives its value from the price or rate of an underlying item

Distributable reserves

Reserves from which, under the Companies Act, the company may pay dividends

Dividend cover

Earnings per share divided by dividend per share

Dividend per share

The amount a shareholder will receive for each share owned

Earnings per share – basic

Profit earned for ordinary shareholders divided by the average number of shares in issue

Earnings per share – adjusted

As basic, adjusted for the effects of exceptional items and tax thereon so as to give a clearer picture of underlying performance

Earnings per share – diluted

As basic, adjusted for the dilutive effect of the conversion into ordinary shares of outstanding options to acquire such shares

Equity minority interests

Amounts invested in subsidiaries attributable to third parties

Exceptional items

Items arising outside the normal activities of the business

Fair values

The estimated market value applied to assets and liabilities inherited on the acquisition of a business

Fixed assets

Assets used by the group on a long-term basis

Functional currency

The main currency in which an entity operates

Gearing

Net debt expressed as a percentage of shareholders' funds plus equity minority interests

Goodwill

The difference between the amount paid for a business and the fair values (see above) of the separable assets and liabilities acquired

Hedge

An action taken to limit exposure to interest or exchange rate movements

Impairment

An impairment of an asset occurs when both the potential net sales proceeds and the estimated value to the business of retaining it are less than its book value

Intangible assets

Assets used by the group on a long-term basis which do not have physical substance (e.g. goodwill or distribution rights)

Interest rates

- floating – an interest rate which moves in line with changes in the money market
- fixed – an interest rate held for the duration of the contract which does not move in line with the market
- cap – a contract with a bank that limits the amount of interest payable on a debt with a floating interest rate, usually in exchange for payment of a premium
- swap – a contract with a bank that allows a fixed rate of interest to be paid on debt which has a floating rate or vice versa

Investments

Amounts invested in other businesses

Joint venture

An entity over which Whitbread has joint control

LIBOR

London Inter Bank Offered Rate, a common reference for interest rates

Like-for-like sales

Total sales less sales generated by businesses acquired or disposed of and retail outlets opened or closed during 1998/9 or 1999/2000

Margin

Profit expressed as a percentage of sales

Market Yield Curve

A mathematical method for estimating future interest rates

Net asset value per share

Shareholders funds (as disclosed on the balance sheet) less preference stocks (see note 24) divided by the number of ordinary shares in issue at the financial year end

Net debt

Loan capital plus bank overdrafts less cash

Non-equity minority interests

Nominal value of preference shares of subsidiaries held by third parties

Occupancy

Number of hotel bedrooms occupied by guests expressed as a percentage of the number of bedrooms available in the year

Off-licence

An outlet licensed to sell alcohol for consumption elsewhere

On-trade sales

Sales to traders licensed to sell alcohol for consumption on their premises (e.g. pubs, restaurants, clubs and hotels)

Onerous contracts

A contract where the costs of meeting its obligations exceed the expected benefits

Operating profit

Profit from normal trading activities

Revaluation reserve

Accumulated net surpluses arising from the revaluation of assets

Revolving credit facility

A binding agreement with a bank under which a company may, at any time during a specified period, borrow money up to a specified limit, repaying and reborrowing as often as it wants

Share capital

The nominal value (25 pence each) of shares issued by the company

Share option

A right to subscribe for shares in a company at a pre-determined price for a set period of time

Share premium

The difference between the nominal value (currently 25 pence) of shares issued and the consideration received

Stocks

Raw materials, goods in the course of manufacture and finished goods awaiting sale

Subsidiary undertaking

A company in which Whitbread has a controlling interest (usually one in which Whitbread holds more than 50% of the voting shares)

Swap

An exchange of streams of payments (e.g. of different currencies or of fixed and floating interest) between parties

Tangible assets

Property, furniture, fixtures and equipment owned by the group

Total shareholder return

Dividends received plus or minus the change in the share price over a given period

Turnover

Sales to customers, excluding VAT

Yield

Also known as 'revenue per available room' (REVPAR), this hotel measure is derived by multiplying the achieved room rate by the occupancy rate

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

Registrar

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

Dividend Reinvestment Plan

Full details of the Plan, which offers you the chance to reinvest your cash dividend in the purchase of additional company shares, are available from the registrars at the address given above.

Dividend payment by BACS

We can pay your dividends direct to your bank or building society account using the Bankers' Automated Clearing Service (BACS). This means that your dividend will be in your account on the same day we make the payment. Your tax voucher will be posted to your home address. If you would like to use this method of payment please ring the Registrars on 0870 6003968.

Individual Savings Account (ISA)

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

Share dealing service

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

Share price information

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

Capital Gains Tax

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

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

Shareholder benefits

Shareholders with a holding of 100 or more shares may buy company leisure vouchers at 12½% discount, subject to a minimum purchase of £50 of vouchers at any one time and a maximum of £2,000 worth per year. The vouchers can be redeemed at more than 4,000 of our outlets in the UK. An order form is sent out with the report and accounts in May and with the interim report in November to those shareholders qualifying for the offer.

Financial diary

Ex-dividend date for final dividend	15 May 2000
Record date for final dividend	19 May
Annual General Meeting	20 June
Payment of final dividend	14 July
Financial half year end	2 September
Announcement of half year results	31 October
Ex-dividend date for interim dividend	6 November
Record date for interim dividend	10 November
Payment of interim dividend	9 January 2001
End of financial year	3 March

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