

Whitbread PLC

Good progress in delivering growth and improved performance

Financial - Continuing Whitbread*

- Total sales from Continuing Whitbread up 8.6% to £696.5m (2005/6: £641.6m)
- Proforma growth in EPS from Continuing Whitbread up 12.0%
- Continuing Whitbread like for like sales up 2.6 %
- Interim dividend up 10.2% to 8.10p (2005/6: 7.35p)

Statutory

- Total Group sales £787.3m (2005/6: £803.3m)
- Profit before tax and exceptional items from continuing operations up 20.8% to £109.8m (2005/6: £90.9m)
- Total profit after tax £136.0m (2005/6: £100.8m)
- Total basic EPS 56.2p (2005/6: 37.1p)
- Adjusted basic pre-exceptional EPS on continuing operations 30.4p (2005/6: 22.1p)

Key highlights

- Premier Travel Inn sales up over 15%, Costa sales up over 21%
- Announced disposal of Pub Restaurant solus sites for £497m with the disposal of 222 sites completed in the half
- Announced second half exit from 50% Pizza Hut Joint Venture for £112m with net proceeds of £99m
- £400m of disposal proceeds to be used to fund a return to shareholders (£350m) and a further payment to the Pension Fund (£50m)
- Total return to shareholders since May 2005 of £1.16bn
- Costa announces today expansion into Eastern Europe

Anthony Habgood, chairman Whitbread PLC, said: "Following significant strategic change Whitbread is entering a new era. We are clearly focused on the four strategic business units of Premier Travel Inn, Pub Restaurants, David Lloyd Leisure and Costa and the results we have announced today illustrate the good progress we are making in delivering growth and improved performance."

Alan Parker, chief executive Whitbread PLC, said: "This is a very different business to the Whitbread of two years ago and we have worked hard to put the foundations in place for sustainable growth. We have seen good performances across much of the Group and, where there are still areas of the business that have performance challenges to address, we are confident that we have the management and the plans in place to drive operational excellence and disciplined expansion."

For further information contact:

Whitbread Investor Relations

Christopher Rogers 01582 889 422

Whitbread Corporate Communications

Anna Glover 01582 844 439

Tulchan Communications

Andrew Grant / Miranda Acland 0207 353 4200

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A presentation for analysts will be held at London Stock Exchange, 10 Paternoster Square, London. EC4M 7LS. Registration is from 9.00am; presentation is at 9.30am. A live audio webcast of the presentation will be available on the investors section of the website at: www.whitbread.co.uk. Alternatively, you can listen live to the presentation by dialling: +44 (0) 207 162 0125 (participants must quote the "Whitbread Interim Results Conference" to connect). The conference call will be available as a replay for one week. To listen dial in number 020 7031 4064 and enter the passcode: 724170

* Continuing Whitbread

Continuing Whitbread comprises Premier Travel Inn, the retained Pub Restaurant estate, David Lloyd Leisure, Costa and TGI Friday's but excludes the disposed Pub Restaurant sites, the Pizza Hut joint venture and any supply chain sales to third parties.

£m	H1 2006/7	H1 2005/6
Statutory Group Sales	787.3	803.3
Pub Restaurant: disposal estate	(82.5)	(103.5)
Other	(8.3)	(58.2)
Sales from Continuing Whitbread	696.5 +8.6%	641.6

Chief Executive's Review

Total sales of Continuing Whitbread for the first six months grew year on year by 8.6% to £696.5m. This growth was driven by a combination of outlet expansion across our businesses, particularly at Premier Travel Inn and Costa where total sales growth was 15.6% and 21.4% respectively. Like for like sales for Continuing Whitbread have grown by 2.6%.

Profit before tax and exceptional items for the half year from continuing operations was up 20.8% to £109.8m. On a proforma basis growth in earnings per share is estimated by management as having grown by 12.0%.

Once again Premier Travel Inn has delivered a strong performance as we continue to enhance the customer proposition and grow our UK network. We have opened 1,312 new rooms in the half year and opened 11 new hotels. With the announced sale of 239 solus pub restaurant sites we are now focused on building out the pipeline of 3,000 Premier Travel Inn rooms alongside pub restaurants.

The joint site Whitbread pub restaurant and budget hotel drives both incremental sales and cost synergies. In addition the combination provides enhanced development opportunities and industry leading returns.

In our retained pub restaurants estate, whilst sales growth remained negative during the period, the rate of decline has slowed. Encouragingly, the Beefeater covers growth that started in the final quarter of 2005/6 has continued with average weekly covers up by 4.5% in the first six months. This has been driven by a combination of refreshed menus offering improved value and more stylish, aspirational environments. In Brewers Fayre, covers were in decline year on year but with very positive early indications from the new concept trial houses that have opened in the first six months. Following a period of uncertainty as a result of the partial disposal and the changes to the management team, the business is now developing positive momentum.

At David Lloyd Leisure we are encouraged that our actions have resulted in like for like sales that are up by 2.2%. We continue to maintain membership levels and are outperforming competitors in all key measures according to the latest research from the Deloitte Health Benchmark Survey. Retention continues to improve and is up 1.7% year on year and now stands at 73%. Total membership now stands at its highest ever level at 375,000. Encouragingly, new clubs opened in the past 18 months are performing well including Aberdeen, which opened in the first half and already has over 3,000 members.

The opening of 85 new stores in the first six months (57 in the UK and 28 internationally) has helped drive Costa's total sales growth by 21.4% to £81.0m and profit by 32.6% to £5.7m. Strong UK like for like sales growth of 6.0% has been driven by increased volume of customers in store, up 2.7% year to date and greater food capture. We have announced today the expansion into the Eastern European market with new franchise agreements in place to launch the brand in Poland, Romania and Bulgaria. Next month we will open our 500th store in the UK and are on track to open c. 200 new stores by the full year with around 100 in the UK and 100 internationally.

Following our review of Pizza Hut and TGI Friday's we announced the sale of our share of the Pizza Hut UK joint venture. Subsequent to the half we have now entered into formal discussions to explore the possibility of a sale of TGI Friday's.

Today we are announcing that we will return a further £350m to shareholders making a total since May 2005 of £1.16bn. As before, it is expected that the return will be structured as a bonus issue of C shares with a view to giving shareholders a choice between receiving the cash in the form of income or capital, and, so far as possible, giving those who choose capital some choice as to when the return is made. The return will be accompanied by a share

consolidation to maintain comparability of earnings per share and other company data. A circular seeking shareholder approval for the return is expected to be issued in November 2006 and cash returned in the new year.

At the same time as making this return we will be injecting a further £50m into the Pension Fund. This payment is on top of the £50m paid into the fund in August 2006 in line with the announcement made in October 2005. The pension fund deficit in the balance sheet as at 31 August 2006 stood at £288m.

The return announced today focuses solely on the proceeds from the Pub Restaurants and Pizza Hut disposals. Developing an appropriate medium term financing structure remains a priority for the Group.

We are on target to deliver the £25m cost savings announced last year and work is substantially complete to identify further savings following the announcement of the Pub Restaurant disposal in July.

Outlook

We have made good progress in the first half and have delivered a satisfactory performance through a combination of operational improvement, focused investment and tight cost control. We are confident of further progress in the second half.

Premier Travel Inn	2006/7	Change
Sales	£239.2m	15.6%
Like-for-like sales		7.2%
Operating Profit (Pre exceptionals)	£84.3m	17.4%
Operating Profit (Post exceptionals)	£84.3m	17.4%

Premier Travel Inn has delivered another outstanding performance in the first half with total sales increasing by 15.6% from £206.9m to £239.2m. Operating profit in the half year increased by 17.4% from £71.8m to £84.3m.

Like for like sales increased by 7.2%. 4.5% of this increase relates to rate/mix improvements, with the balance of 2.7% arising from new extensions, the maturity of new-build hotels and food and beverage sales.

Premier Travel Inn continues to have the highest occupancy levels of any national brand hotel chain in the UK with occupancy at 80%. Revenue per available room (RevPar) has grown by 3.6% to £38.42.

During the first half we have made a strong start towards our target of 45,000 rooms by 2010 with the opening of 1,312 new bedrooms (11 new sites), which includes the successful conversion of 988 Holiday Inn rooms. In March 2006 we opened our latest London hotel, the Premier Travel Inn Hampstead. This takes our London hotels total inside the M25 to 43 hotels and a total of 5,169 bedrooms.

Our joint venture with Emirates has secured the first site in Dubai to open a 303 bed hotel in Dubai Investments Park. Construction will start in early 2007 and we expect to open the hotel in 2008.

We are on track to complete the roll out of the new Premier Travel Inn bedroom design by the end of 2008.

Through technological improvements to our reservations system we have been able to halve customer check-in time. We have also enhanced our business account card, which has delivered £39m of business in the first six months and there are now 6,500 business account customers.

The website continues to see strong booking growth with a 19% increase in bookings year on year; with c. 45 % of our bookings made direct via the web by the end of the first half.

Pub Restaurants	2006/7	Change
Sales	£296.6m	(6.0)%
Like-for-like sales*		(1.2)%
Retained estate sales	£214.1m	0.9%
Operating Profit (Pre exceptionals)	£30.0m	(23.7)%
Operating Profit (Post exceptionals)	£218.4m	455.7%

* like for like sales excluding 235 disposal sites

The new management team have developed plans for driving performance in our Pub Restaurant business. These plans are focused around restructuring menus to offer good quality food over a wider range of price points and revitalising the environments. The results from the small number of re-modelled sites that have been converted this year have been encouraging, with weekly sales and meals sold increasing significantly for both brands.

The Beefeater covers growth that started in the final quarter of 2005/6 has continued with average weekly covers up by 4.5% in the first six months. During the half year we converted 18 Beefeater houses; sales for these sites are up 23% year on year. A further 12 sites were converted by the end of September, which are also performing well. Given the success of the conversion programme we intend to complete the remaining 57 Beefeaters by Easter 2007 at a cost of c. £400k per site.

In Brewers Fayre, covers were in decline year on year but there are very positive early indications from the re-modelled sites, three of which were completed in the half year and a further six during September bringing the total to 11, including 2 sites converted last year. Sales during the half year of the five trial sites are up by 41% year on year. A further 32 sites will be re-modelled during the second half at a cost of c. £400k per site. Additionally, in the first half we opened one new restaurant at Eastbourne, which is trading ahead of expectations.

Following the announced sale of the 239 stand-alone pub restaurant sites we will, as from the year end, be including income from breakfast sales in the Pub Restaurants results. Previously this was included in the Premier Travel Inn results. In addition, we will be ending the practice of cross charging the Pub Restaurants with an adjacency charge from the hotels. In the year to March 2006 these two items in total would have amounted to £10.5m, which accrues fairly evenly across the year, (see Finance Review).

David Lloyd Leisure	2006/7	Change
Sales	£118.4m	5.7%
Like-for-like sales		2.2%
Operating Profit (Pre exceptionals)	£21.1m	0.0%
Operating Profit (Post exceptionals)	£21.1m	0.0%

The David Lloyd management team has outperformed its competitors with like for like sales growth of 2.2%. This has been primarily achieved by continued improvement in retention, which is up 1.7% year on year at 73% (in the UK) and a focus on driving new member sales, which are up 2.3% year on year in like for like UK clubs. Profit performance has been impacted somewhat by cost increases in rates and utilities of £2.8m in the LfL business.

In the UK the number of members is up by 13,000 to 325,000 and like for like number of members is up 4,000 to 311,000. Total membership now stands at its highest ever at 375,000.

New clubs opened in the past 12 months continue to perform ahead of expectations. Kings Hill in Kent and Southend, which opened last year have 5,600 and 5,200 members respectively and Aberdeen, which opened in May 2006 already has over 3,000 members.

Over the past six months the management team has put in a number of initiatives to ensure future growth including a re-structuring of management teams at club level; a programme for new members to inspire & motivate them to get the most out of their membership; a new Weight Loss Management programme; new menus & Costa coffee throughout the estate; and the launch of the Tennis All Star Programme in association with Andrew Murray.

European clubs are performing well with record memberships of 50,000, which is a rise of over 3,400.

High Street Restaurants*	2006/7	Change
Sales	£126.3m	12.7%
Like-for-like sales (excluding Pizza Hut)		1.2%
Operating Profit (Pre exceptionals)	£6.7m	17.5%
Operating Profit (Post exceptionals)	£6.4m	8.5%

* High Street Restaurants includes Costa and TGI Friday's

Costa continues to deliver strong performance and rapid outlet growth. Total sales have increased by 21.4% to £81.0m. Like for like sales in the UK Retail business were up by 6.0% driven primarily by volume growth of 2.7% and increase in food capture. Profit for the six months is up 32.6% to £5.7m.

Underpinning this success are a number of new initiatives including the re-imaging of a further 44 UK stores with a sales uplift of 11.8% and a new food and beverage offer that is proving popular with customers and improving the size of each transaction. The re-imaged stores now cover over 60% of the estate and an additional 16 stores are set to undergo the re-image process by the full year.

Costa is the first brand in the UK restaurant industry to have trialled a 'stored value card'. Following the successful 22 store trial the new card will be rolled out across 400 sites in November 2006. A combination of a pre-paid debit and loyalty card, the new scheme makes it easier for customers to purchase and drives customer loyalty. Each card can hold from £5 to £75 worth of stored value and can be topped up either in store or through an individual on-line customer account at www.costa.co.uk.

In terms of expansion Costa has already opened 85 new stores year to date, which includes 57 in the UK and 28 internationally. The 500th store in the UK will open in early November at Oxford. By the end of the financial year we expect to have opened c. 200 stores – 100 in the UK and 100 internationally – making a total of over 700 stores worldwide.

We are also launching the Costa brand into Eastern Europe with franchise deals with partners in Poland, Romania and Bulgaria.

In TGI Friday's total sales have remained flat at £44.8m and like for like sales have dropped by 4.8%.

Finance Review 06/7 Half Year accounts

Changes in Group Operations

The first six months of 2006/7 has seen a number of major corporate transactions.

Marriott

The disposal of Whitbread's Marriott business was completed on 21 April 2006.

On 5 May 2005, Whitbread sold its Marriott business into a joint venture company, owned 50% each by Whitbread and subsidiaries of Marriott International, with a management contract held by Marriott International.

On 21 April 2006, this Joint Venture company was sold to the Royal Bank of Scotland, with proceeds being returned to both Whitbread and Marriott International.

Profit generated by the Joint Venture has been excluded from the consolidated income statement, as the Joint Venture assets were classified as held for sale.

Note 3 lays out the impact of this in 2006/7. The carrying value of the Joint Venture company was written down by £29.3m during 2005/6 with a further £33.1m, which has been recognised on completion in the period.

Of the 7 properties retained by Whitbread outside of the Joint Venture, 3 properties were sold during the period, generating a profit on disposal of £0.6m. Of the 4 remaining properties, 3 have been disposed of after the half-year, and as such have been treated as assets held for sale, with trading held in discontinued operations for the half year. The combined proceeds from these 3 sites will be £25.3m. As the final property is currently being marketed, this has also been treated as an asset held for sale at the half-year end, with its trading also held in discontinued operations for all periods presented.

Stand-alone Pub Restaurants

On 28 July 2006, Whitbread announced the sale of 235 trading pubs, together with 4 sites not yet trading, to Mitchells & Butlers. The profit on disposal of the 222 assets whose sale completed during the first half is laid out in note 4, with the sale of the remainder being completed early in the second half.

The 2006/7 performance of Pub Restaurants includes 21 weeks of trading for the sites, whereas 2005/6 comparatives include a full 26 weeks of trading.

As a result of the sale of its stand-alone estate, Whitbread has reviewed the accounting arrangements between the Pub Restaurant division, and the Premier Travel Inn (PTI) division as they relate to Food and Beverage supply.

Historically, profit arising from breakfast sales in Pub Restaurants next to PTI lodges has been accounted for within the PTI division, together with a share of the profit generated from PTI guests eating in the adjacent restaurant in the evening. These arrangements had allowed the Pub Restaurant division to compare the economic performance of its stand-alone sites against those with an adjacent lodge.

With the focus now on joint sites, the rationale for continuing with these arrangements has gone, and we propose to remove them in our segmental business reporting from the end of this financial year, with an appropriate restatement of our prior year comparatives.

As at this half year, and as at the end of last year-end, the impact of restatement would have been as follows:

Pro-forma EBIT restatement £m	Premier Travel Inn	Pub Restaurants
Half year 2005/6 as reported	71.8	39.3
Restatement	-5.6	5.6
half year 2005/6 pro-forma restated	66.2	44.9
Half year 2006/7 as reported	84.3	30.0
Restatement	-5.9	5.9
half year 2006/7 pro-forma restated	78.4	35.9
Full year 2005/6 as reported	139.8	64.9
Restatement	-10.5	10.5
Full year 2005/6 pro-forma restated	129.3	75.4

Pizza Hut

On the 31 July, 2006, Whitbread announced its agreement to sell its 50% shareholding in Pizza Hut UK to Yum! Restaurants Holdings.

The assets held by Whitbread in this Joint Venture have been classified as held for sale, and reported in discontinued operations. As a result, profit generated by the joint venture has been excluded from the consolidated income statement as from the 3 March, and prior year income has been restated accordingly.

The transaction was completed on 12 September 2006.

Exceptional items

As a result of the restructuring of Group & Head Office operations following the sale of Marriott, the business has incurred £8.9m of cost in the first half, together with recognising a £1.4m reduction in the carrying value of surplus office space due to be disposed of. We expect that a further c. £10m of restructuring costs will be incurred in the second half, following a further reorganisation that has taken place as a result of the Pub Restaurant disposals.

Other material exceptional items include a £5.2m write-down in the carrying value of a loan to Swallow Hotels Ltd, part of the London & Edinburgh Group now in administration. The loan arose from deferred consideration to Whitbread following the disposal of surplus hotel assets by Whitbread in 2004. This write-down reflects the entire loan, plus some outstanding interest owed, although we will continue to pursue the company for this sum as it receives the proceeds from the sale of assets.

Note 4 outlines the exceptional items incurred by Whitbread, which includes the items above, together with the net profit and/or loss arising from the disposals of Pub Restaurant sites, the Marriott Joint Venture and the surplus hotel assets divested separately from the Marriott Joint Venture.

Interest & Net Financing Costs

Total net financing costs for the half were £20.5m as compared to £34.0m in the first half of 2005/6. This year on year decline was driven by three factors: a lower level of average debt

over the half, a relative improvement in the pension finance charge, and a small one-off benefit driven by the revaluation of an interest hedge.

Taxation

The tax charge on profit for the interim period has been calculated by applying the forecast effective tax rate for the current year.

The UK tax expense of £124.7m, including deferred tax, represents an effective rate of 32.9% on continuing operations, pre exceptional items, as compared to 34.0% for the half-year 2005/6. This total also includes an £81.8m deferred tax charge relating to the stand-alone Pub Restaurant asset disposal.

Earnings per Share

Adjusted basic earnings per share for underlying profit for the interim period was 30.72p, as compared to 32.17p last year. On a continuing basis, adjusted basic earnings per share for underlying profit has grown by 37.8%, from 22.09p to 30.43p. The detail can be found in note 6 to the financial statement.

With interest not being apportioned between continuing and discontinuing businesses the growth in earnings per share calculated above is unhelpful. Management have therefore performed their own calculation to derive a growth in earnings per share for Continuing Whitbread and estimate this at 12.0%. The basis of the calculation has been to take an estimate of operating profit for Continuing Whitbread and notionally adjust for the interest cost of the capital returns.

Dividend

An interim dividend of 8.10p per share, an increase of 10.2% over last year, will be paid on 2 January, 2007 to all shareholders on the register at the close of business on 3 November 2006.

Capital Expenditure

Total Group cash capital expenditure on property, plant & equipment and intangible assets was £125.3m, including £38.9m spent on 7 going concern Holiday Inn properties currently being re-branded to Premier Travel Inn.

This is split £32.3 and £93.0m between maintenance and acquisition expenditure.

Forecast capex for the full year is anticipated to be around £280m.

Financing

Net debt stood at £660.9m at the half year, as compared to £1,122.6m at the same point in the previous year, and £970.3m at the end of fiscal year 2005/6. The c. £309m reduction in net debt since the end of the previous fiscal year is largely due to the excess of receipts of £723.6m from business & asset disposals, less a £391.6m return of capital to shareholders, and a £50m payment into the Pension Fund, being used to pay down debt.

Pensions

As at 31 August 2006, the gross pension fund deficit in the balance sheet stood at £288m (net deficit after deferred tax £202m). This is £85m lower than at the previous half-year, and £50m lower than at the year-end. In line with the measures announced last September, £50m was injected into the fund during the first half.