Whitbread PLC

Annual Report and Accounts 2003/4

Successful brand management in leisure

Business and financial highlights

Continuing businesses have now achieved double-digit earnings growth for six reporting periods in succession

Adjusted* earnings per share

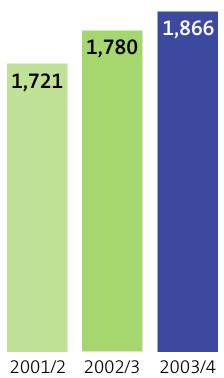
up 10%

to 58.22p

*before goodwill amortisation and exceptional items

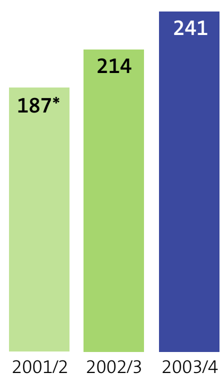
Whitbread	2003/4	change
Divisional sales (excluding business disposals) (£m)	1,866	+4.8%
Profit before exceptional items, goodwill amortisation and tax (£m)	249	+12%
Profit before exceptional items and tax (£m)	241	+13%
Return on capital employed (%)	10.1	+0.7% point

Divisional sales* (£m)

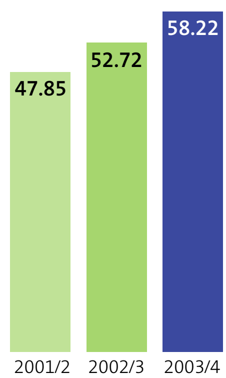


*excluding business disposals

Profit before exceptional items and tax (£m)



Adjusted earnings per share (pence)



Whitbread brands

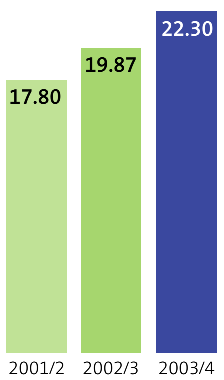
Increased dividend

up 12% to 22.30p

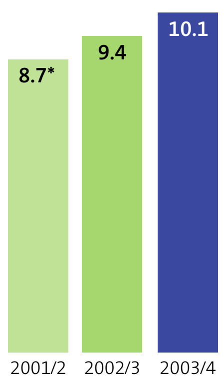
Strong cash flow

£137 million net inflow

Dividend per share (pence)



Return on capital employed (%)



*excluding business disposals

Contents

The board expects further progress in terms of organic growth, margin improvement and the more efficient use of shareholders' assets.

Continued double-digit earnings growth

This has been another strong year for Whitbread. Continuing businesses have now achieved double-digit earnings growth for six reporting periods in succession.

Comparable divisional turnover increased by 4.8% to £1,866m despite the disposal of Swallow hotels and a number of pub restaurants. Profit before tax and exceptional items increased by 13%, to £240.8 million, as a result of the organic development of our brands, a 2.7% improvement in like-for-like sales and rigorous cost controls. Group margin increased from 14.0% to 14.8%.

We achieved exceptional growth in operating profits from our restaurants, up 14%; Travel Inn, up 11%; and David Lloyd Leisure, up 12%. Marriott, however, continued to feel the effects of weak demand in the four-star hotel sector.

Across the group, return on capital employed exceeded 10% after a further 0.7% point rise.

The cash position was again healthy with a net inflow of £137m helped by £112m of disposal proceeds. Net debt decreased to £793m and with gearing of 38% the balance sheet remains strong.

Capital expenditure totalled £230m. Of this, £96m was expansionary capital expenditure, invested in new sites, mainly for Travel Inn, Brewers Fayre, Brewsters and David Lloyd Leisure.

Current trading

For the first seven weeks of the new financial year (to 22 April 2004), like-for-like sales growth was as follows:

Marriott	**+2.3%**
Travel Inn	**+4.9%**
Pub restaurants	**+2.4%**
High street restaurants	**+4.7%**
David Lloyd Leisure*	**+5.8%**
(*5 weeks)	

Like-for-like sales growth for the group as a whole was 3.5%.

The timing of the Easter holiday affects year-on-year analysis. We will provide a further trading update at the Annual General Meeting on 15 June 2004.

Outlook

The popularity of Whitbread's brands has never been greater. Projections for the UK economy, consumer confidence and our major markets are positive. The board expects further progress in the current financial year, in terms of trading performance, organic growth and the more efficient use of shareholders' assets.

Dividend

The board's confidence in the organic growth prospects for the group is reflected in the final dividend payment of 16.15p per share. This makes a total dividend for the year of 22.30p which is an increase of 12%. It will be paid on 16 July 2004 to shareholders on the register at the close of business on 14 May 2004.

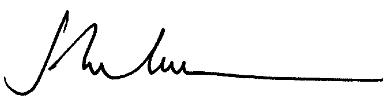
People

In December I announced that Alan Parker would succeed David Thomas as chief executive following the AGM in June. On behalf of my colleagues on the board I should like to congratulate Alan on his appointment and to thank David for his contribution to Whitbread over some 20 years. He leaves the proud legacy of a very successful business with excellent growth prospects.

I also wish to thank Bill Shannon for his outstanding contribution both as managing director of Whitbread Restaurants and as a member of the board. Bill has served Whitbread well for 30 years and is also to step down following the AGM.

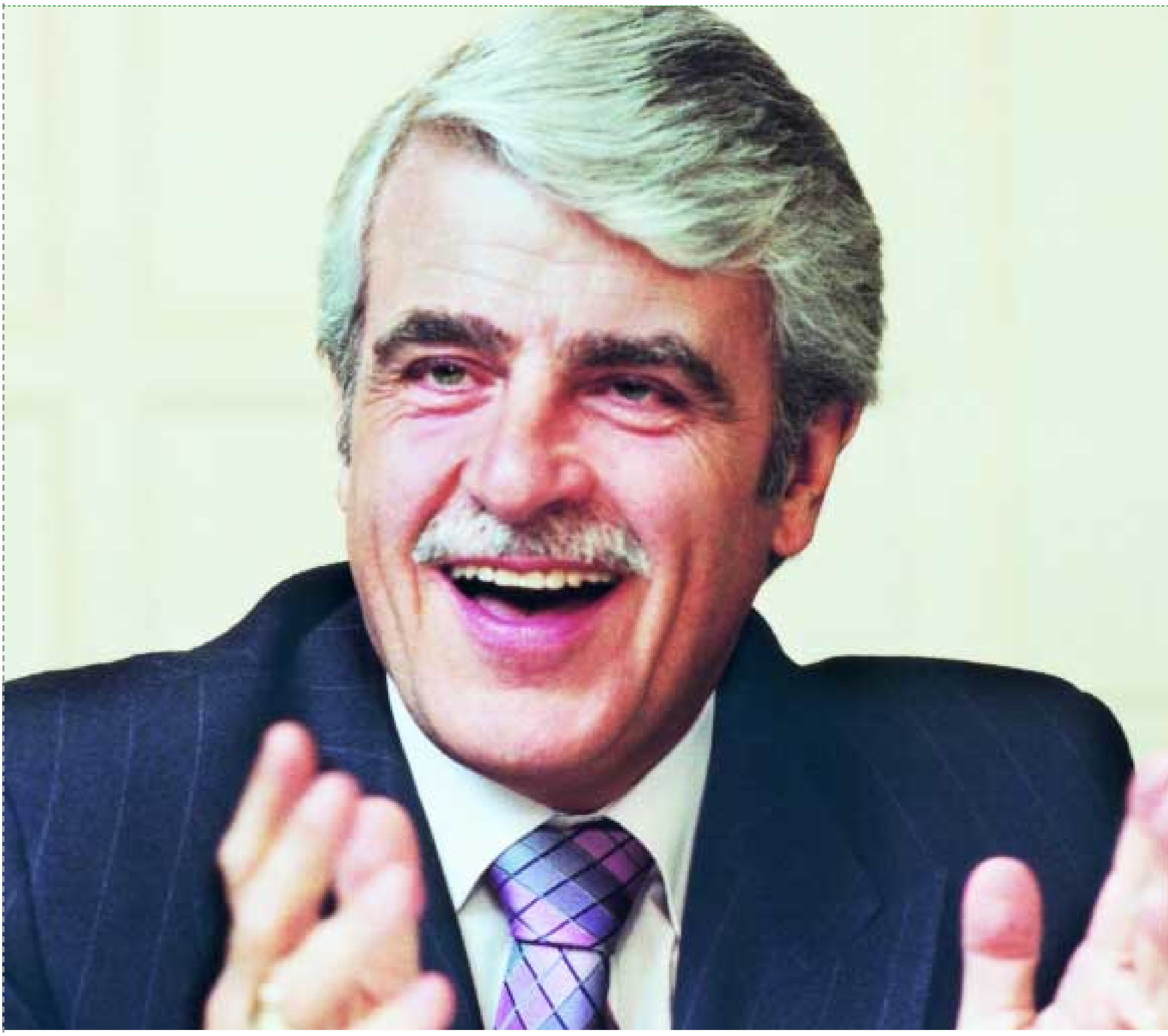
I am delighted that Angie Risley, group human resources director, joined the board on 1 May 2004. Angie has already made a major contribution to the company, and as a member of the board she now takes on the direction of Whitbread's corporate social responsibility programme.

The skill and dedication of Whitbread's people in serving our customers is the real driving force behind this positive performance. I should like to thank all of them for another excellent year.



Sir John Banham
Chairman

4 May 2004



The company I leave is very different from the one that I took on as chief executive in 1997. Whitbread is a more focused business: each of our brands has a strong claim to UK leadership; and the underlying prospects for growth in each of their market segments – including four-star hotels – are strong.

A pivotal year

As my final full year with Whitbread, the last 12 months have had special personal significance, but more importantly they mark a pivotal point in the company's evolution.

In an environment of rising business costs (notably labour and insurance) we have had to work hard to improve margins across the group. And by focusing on growing sales on a like-for-like basis we have been able to drive our return on capital employed above 10%.

Both Travel Inn and David Lloyd Leisure have recorded impressive growth in sales and profits and have pushed ahead on return on capital employed.

There is a renewed optimism around Beefeater, a brand that this year celebrates its 30th birthday. We have a new format for the brand that is showing real promise, while the overall improvement in the profitability of our pub restaurants is a highlight.

And by chalking up a 33% increase in profits, our high street restaurants business has now exceeded its targeted level of 25% return on capital employed.

While Marriott's profit per room performance continues to improve in relative terms against the sector, we recognise the need to generate better value from the shareholder funds currently invested in the brand.

I should like to express my thanks to everyone at Whitbread for making possible these first-rate results. It is their dedication to serving our customers that separates Whitbread brands from the competition.

Marriott	2003/4	change
Sales	£391 million	(0.3)%
Like-for-like sales		(0.2)%
Operating profit*	£71.5 million	(10)%
Return on capital employed*	6.2%	(0.3)% point

* before goodwill amortisation of £8.0m

Marriott has delivered another gritty performance in a market that remains tough. Operating profit has fallen and we have seen further erosion in return on capital employed, but we have performed better on profit per room than our peer group average.

Occupancy has edged ahead to 71.5% and I take heart from a gradual return to like-for-like sales growth since the half year.

The disposal of a number of Swallow hotels in the second-half has reduced capital intensity; reviewing the capital structure within Marriott is a focus for 2004/5.

We are exploring new ways of developing the Marriott brand without the use of significant amounts of shareholder funds. Our agreement with Royal Bank of Scotland to manage its Victoria & Albert Hotel in Manchester, under the Marriott name, is a good example of this approach.

Travel Inn	2003/4	change
Sales	£230 million	+12%
Like-for-like sales		+3.6%
Operating profit	£74.0 million	+11%
Return on capital employed	13.6%	+1.0% point

It has been another good year for Britain's most popular hotel brand: a year of strong sales; and a year of double-digit profit growth.

Occupancy dipped in the first six months as our London properties suffered from broad market pressure; but after a steady second half we finished the year at 80.2%.

The impact of price changes and the increased proportion of rooms in Metro and Capital units pushed achieved room rate up 3.8% and helped to raise room yield from £32.95 to £33.28.

The addition of more than 1,000 bedrooms on large leasehold sites led to a slight decline in operating margin; but return on capital employed has powered ahead to 13.6%.

We maintain progress towards our medium-term target of 25,000 bedrooms. Having added more than 1,500 over the last 12 months, we have ended the year with 18,173 bedrooms under the Travel Inn brand.

Pub restaurants

	2003/4	change
Sales	£590 million	+1.3%
Like-for-like sales		+2.2%
Operating profit	£84.1 million	+9.8%
Return on capital employed	11.5%	+1.6% points

A near ten per cent rise in operating profit is a considerable achievement in a year when disposals totalled more than 50 outlets, against 13 new openings.

We have made major gains in return on capital employed and we have a higher quality estate of pub restaurants than we had 12 months ago.

We have a new format for our Beefeater brand in 24 outlets, that are now delivering stronger sales, profits and returns; and we intend to roll this out to another 40 Beefeaters in 2004/5.

Following the disposal of tail sites we are also seeing sales and margin improvement across the Beefeater estate as a whole.

Brewers Fayre/Brewsters has strengthened margins and return on capital employed, but there is work to do in broadening the appeal of Brewsters to drive sales from adult diners.

High street restaurants

	2003/4	change
Sales*	£453 million	+8.4%
Like-for-like sales		+3.1%
Operating profit*	£28.5 million	+33%
Return on capital employed*	25.3%	+6.1% points

* excluding restaurant brands disposed of in 2002/3 (see note 2 to the accounts)

Our high street restaurants continue to drive significant improvement in sales, operating profit and return on capital employed. Raising returns by more than 10% points in just two years has taken this business past its 25% target.

Pizza Hut has once again performed well against its key measures, and has paid to Whitbread a cash dividend for the year of £9.5m. Costa has had another year of strong profit growth and is making good progress through franchising overseas. T.G.I. Friday's continues to make progress in converting exceptionally strong sales per unit to bottom line growth.

David Lloyd Leisure

	2003/4	change
Sales	£202 million	+10%
Like-for-like sales		+5.2%
Operating profit*	£49.1 million	+12%
Return on capital employed*	9.5%	+0.3% point

* before goodwill amortisation of £0.4m

David Lloyd Leisure continues to improve against all key performance criteria, with turnover, like-for-like sales, operating profit and return on capital employed all moving ahead.

In the last three years, operating profit in the UK and Ireland has grown by 80% while the number of clubs has climbed from 44 to 56. Membership of David Lloyd Leisure clubs in the UK and Ireland now stands at 321,000.

A reinvigorated approach to new club development gives us a strong platform for growth: in February we opened our 56th club, at Oxford; we have begun construction of a new club at Worthing, West Sussex; and we have local planning consent for sites in Aberdeen, Glasgow, Southend-on-Sea and Farnham, Surrey.

The brand has taken its first steps into mainland Europe: acquiring five health clubs (with total membership of 20,000) and two development sites in the Netherlands from Cannons; developing a club in Barcelona, Spain; and preparing to open in Brussels, Belgium in the current financial year.

Return on capital employed across the brand as a whole (including operations in mainland Europe) stands at 9.5%, while margin has edged ahead by 0.4% point to 24.1%. Member retention remains strong at 73%.

We continue to drive considerable improvement out of our mature clubs. Overall performance is set to improve further as a higher proportion of our estate reaches mature levels of return.

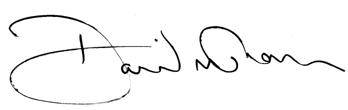
Britannia Soft Drinks

Currently, Whitbread owns 23.75% of Britannia Soft Drinks Limited. In March 2004 an exclusive bottling agreement was entered into with PepsiCo. This has created an opportunity for a public listing for Britannia Soft Drinks as described in the Finance Director's review.

Britannia Soft Drinks enjoyed strong trading, increasing profits by 28%, and has paid to Whitbread a cash dividend for the year of £11.6m.

A more focused business

The company I leave is very different from the one that I took on as chief executive in 1997. Whitbread is a more focused business: each of our brands has a strong claim to UK leadership; and the underlying prospects for further organic growth in each of their market segments – including four-star hotels – are strong.



David Thomas
Chief executive

4 May 2004

Operating profit grew by 6.7%.

Profit margin increased from 14.0% to 14.8%, while return on capital employed increased from 9.4% to 10.1%.

These financial statements show the benefit of the group's focus on: achieving sales, profit and margin growth from existing businesses; improving return on capital employed; and cash generation. Unlike previous years, the figures are no longer impacted by the demerger of Pubs and Bars or major business disposals.

Operating profit, profit margin and return on capital employed figures referred to in this review are stated before exceptional items (see note 4 to the accounts).

Like-for-like sales figures exclude sales of outlets first opened or disposed of during 2002/3 or 2003/4.

Year end date

The company is in the process of implementing a group-wide enterprise resource planning (ERP) system. This implementation has enabled all subsidiaries to conform to a common 'end of week' day. Our year end is now the Thursday nearest to 1 March, a formula that gives 4 March for 2004 and 3 March for 2005.

Accounting polices

As explained in note 1 to the accounts, the Urgent Issues Task Force (UITF) abstracts 17 – as amended (Employee Share Schemes) and 38 (Accounting for ESOP Trusts) were adopted in the year. The comparative figures have been restated to comply with these extracts although the changes are not material. All the other accounting policies adopted in preparing these accounts are consistent with those used in the previous year.

Turnover

Turnover grew by 2.7% on a like-for-like basis. Comparable divisional turnover grew by 4.8%. Headline reported turnover was up by 0.6%. Last year's figure included sales of the Pelican high street business up to 31 May 2002 and sales for the full year of the residual beer production activity, which ceased in April 2003.

Operating profit

Operating profit grew by 6.7%. Marriott's profit was constrained by the depressed four-star hotel market. All other divisions recorded strong profit growth.

Profit margin increased from 14.0% to 14.8%, while return on capital employed increased from 9.4% to 10.1%. Once again these improvements reflect the continued focus on cost control and asset management.

Exceptional items

Exceptional costs before interest and tax amounted to £25.8 million. This amount is analysed in note 4 to the accounts. The impairment charge of £15.5m represents the diminution in the values of four Marriott branded hotels and one site held for development. The net loss of £10.3 million on the disposal of fixed assets relates primarily to book losses on the sales of pub restaurants and the Swallow hotels. These amounts are all non-cash items.

Interest

The net interest charge before exceptional costs declined by £8.8 million to £52.2 million as a result of a lower level of net debt and lower interest rates.

Net interest, before exceptional costs, was covered 5.6 times by operating profit.

£3.3 million of the interest charge for the period relates to financing costs associated with the realisation of tax losses not previously recognised in the accounts. These costs have been treated as exceptional, in line with the treatment of the associated tax credit.

Tax

The charge of £77.1 million against profit before exceptional items represents a rate of 32.0%. The factors affecting the tax charge are explained in note 9 to the accounts.

The exceptional tax credit of £30.2 million reflects: the realisation of tax losses not previously recognised; deferred tax relating to the charge for impairment and the sale of the Swallow hotels; and a repayment of tax to the Swallow companies relating to periods prior to their acquisition by Whitbread.

Capital expenditure (£m)		2003/4	2002/3
Hotels	– Marriott	**41**	**27**
	– Travel Inn	**37**	**65**
Restaurants	– Pub restaurants	**60**	**47**
	– High street restaurants	**16**	**15**
Sports, health and fitness		**59***	**54**
Other		**17**	**10**
		230*	**218**

* including £21m to acquire the Cannons health club business in the Netherlands

Shareholder return

Basic earnings per share (EPS) were 55.74 pence, while adjusted basic EPS was 58.22 pence – an increase of 10% year-on-year. Adjusted basic EPS excludes exceptional items and goodwill amortisation.

The total dividend for the year of 22.30 pence per share represents an increase of 12%. The dividend payment is 40% of post-tax earnings before exceptional items (cover of 2.5 times). The final dividend of 16.15 pence per share will be paid on 16 July 2004 to all shareholders on the register at the close of business on 14 May 2004.

The company's share price opened the financial year at 521 pence and closed it at 740 pence. Net asset value per share increased over the year from 668 pence to 703 pence. As explained in note 14 to the accounts, the last revaluation of the group's properties was carried out in 1998/9. Consequently £1.8 billion of tangible fixed assets are carried at cost.

Capital expenditure

£230 million was invested in property and plant, including the business acquisition of five health clubs and two development sites in the Netherlands, compared with £218 million last year. Of this amount, £96 million (2002/3 – £114 million) related to the acquisition and development of new sites. This is lower than we had intended, particularly in David Lloyd Leisure and Travel Inn. However, the development programmes for these brands have now been reinvigorated. Other expenditure includes £17 million on acquiring and implementing a group-wide enterprise resource planning (ERP) system.

The current forecast is for capital expenditure in the range of £250–275 million in 2004/5. The majority of expansionary capital expenditure will be directed at developing new Travel Inns and David Lloyd Leisure clubs.

Cash flow

The net cash inflow before use of liquid resources and financing was £137 million. This compares with a net inflow of £39 million for 2002/3. The underlying cash inflow (after adjusting for business acquisitions and disposals, the cost of acquiring and developing new sites and the disposal of hotels and restaurants) was £122 million (2002/3 – £101m).

The decline in tax paid reflects the cash impact of the exceptional tax credits of the last two years.

The increase in the proceeds from sales of property and plant, up from £29 million to £112 million, reflects the sales of the Swallow hotels and pub restaurants referred to earlier.

We are considering ways to improve the return on capital employed of our Marriott business and whether the level of capital commitment is in the best interests of shareholders in the current, strained market conditions for four-star hotels.

Pensions

The pensions charge to the profit and loss account continues to be based on SSAP24. The charge reflects the 2002 triennial valuation of our defined benefit schemes, which resulted in deficits on the funds of £64 million. The schemes were closed to new members on 31 December 2001.

The third stage of the FRS17 (Retirement Benefits) transitional arrangements has been adopted and the disclosures required are included in note 7 to the accounts. At the end of 2002/3, there was an FRS17 pension fund deficit of £420 million. The net deficit, after tax, was £294 million. At the end of 2003/4, the net deficit had fallen to £256 million. It should be noted that the FRS17 calculations are susceptible to changes in interest rates on the value of liabilities and to short term movements in equity values.

In line with our aim to be the 'Employer of Choice', the board announced in April 2003 that the company had signed an agreement with Whitbread Pension Trustees Limited. Under that agreement, the company has undertaken to fund the pension scheme for a period of up to 15 years and has given undertakings to the trustees similar to some of the covenants provided in respect of its banking agreements. The company's liability under these undertakings is capped at £300m. As a consequence of this agreement, payments are being made into the fund for each of three years, starting in 2003/4, at a rate of £15 million above the anticipated SSAP 24 charge. There will be no change to the charge to the profit and loss account, as a consequence of this agreement, before the next triennial valuation in March 2005.

Financial position

Net debt at the year end amounted to £793 million, resulting in a balance sheet gearing ratio of 38%. Net interest was covered 5.6 times by operating profit before exceptional items.

At the year end, £523 million of the committed credit facilities were unused. In March 2004 a £475 million committed credit facility, which expires in April 2005, was reduced by £200 million.

Going concern

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.

Strong cash flow

£137 million net inflow

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 Treasury Committee, which is chaired by the finance director, reviews and monitors the treasury function. The undertaking of financial 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 interest costs over the next five years. This policy reduces the group's exposure to the consequences of interest rate fluctuations.

Interest rate risk management

At the year end, £422 million (57%) of group net sterling debt was fixed for a weighted average of 7.5 years, using fixed rate borrowings and interest rate swaps. The average rate of interest on this fixed rate sterling debt was 6.8%.

Based on the group's net debt position at the year end, a 1% change in interest rates would affect costs by approximately £4 million, or around 1.5% of the 2003/4 operating profit before exceptional items.

Foreign currency risk management

At the year end, foreign currency borrowings amounted to £72 million. These borrowings provide a partial hedge against overseas investments.

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

International Accounting Standards

Whitbread will be required to adopt International Accounting Standards (IAS) when preparing its group accounts for 2005/6. In preparation for this, all existing IAS's have been reviewed in detail so as to assess their likely impact on our reported figures and the actions required to collect the necessary data.

Progress and clarity to date has been hindered because most of the key standards have only recently been finalised. Consequently, while it has been possible to reach some high level conclusions, more time is needed to complete calculations and have these reviewed by our auditors. This activity has now commenced with a view to agreeing the opening adjustments for IAS reporting before the end of 2004/5. We intend to publish these adjustments, with supporting narrative, well before we present our first IAS figures, which will be for our 2005/6 interims. We are aiming to start collecting data on a dual basis (UK GAAP and IAS) with effect from the second half of 2004/5.

Adoption of IAS, with its focus on the balance sheet and the incorporation of fair value accounting, will increase the volatility of reported profits. The main causes of this increased volatility will be:

- the requirement to account for the surplus or deficit on our pension fund in our balance sheet and the fact that the values of the assets and liabilities of the fund will be based on market values at the balance sheet date; and
- the requirement to incorporate the market values of financial derivatives into our balance sheet. Where such derivatives can be demonstrated to have operated as an effective hedge against all or part of certain underlying financial instruments (which would normally be their intended purpose), the value of those instruments will also be adjusted in the balance sheet.

The year on year movements in the market values of pension fund assets and liabilities and certain unhedged financial derivatives will be reported in the income statement (the IAS equivalent of the current profit and loss account and statement of total of recognised gains and losses).

Our opening IAS balance sheet will also be impacted by the requirement to account for deferred tax on gains on sales of property rolled over into new assets and on previously reported gains on the revaluation of properties.

Britannia Soft Drinks

In March 2004, we announced that the existing shareholders in Britannia Soft Drinks Limited (BSD) had signed an agreement with PepsiCo which creates an opportunity to undertake an initial public offering (IPO) of BSD. In conjunction with the other shareholders we will determine the best time to realise this opportunity but it is unlikely to be before our year 2005/6. Whitbread has a 23.75% shareholding in BSD.

D.H. Richardson

David Richardson
Finance director

4 May 2004

The best is yet to come

I have great respect for what David Thomas has achieved in transforming Whitbread, in a number of tough situations during his seven-year tenure as chief executive. Today the company is in good shape, but I know that we have only just started.

David has been the first to tell me that we are still in transition from being a good company to being a great company. Put simply, the best is yet to come. This summer we will be conducting a review of each brand to be clear what value it can deliver to the Whitbread group in terms of pace, materiality and synergy.

I see a tremendous opportunity to make Whitbread a more integrated company with sharper focus, unlocking value through greater synergy and more efficient ways of working.

Shareholder value

We are committed to delivering improved returns for our shareholders and ensuring that they are kept above our cost of capital on a sustained basis.

Return on capital employed (%)

Earnings growth

We maintain our commitment to delivering earnings growth, principally by driving organic sales and investing in opportunities to continue our journey as a high growth company.

Trading margin (%)

We are still in transition from being a good company to being a great company. Put simply, the best is yet to come

Strong cash flow

As a business we are increasing the distribution of our brands, while at the same time generating strong cash flow.

Net cash flow (£m) (including disposals)

Competitive edge

It is our brands that hold the key to Whitbread's long-term competitive advantage and value creation. We are committed to delivering operational excellence and being the best operator of the best brands in the leisure sector.

Market leadership will be judged not in terms of pure scale, but through a balanced scorecard of value creation, customer preference and employee satisfaction.

There remains significant potential within this business and I intend to accelerate the strategic processes that will release it.

Leadership talent

What really matters is the quality of service that our employees deliver everyday in more than 1,900 retail units across the company. We are committed to being the 'Employer of Choice' and we already attract many of the most talented individuals in our industry. We are a people business and my focus will be continued investment in our people through world class development programmes.

Exciting times

I have been in the hospitality industry all my working life.

I have the honour of being both council chairman for the British Hospitality Association and a board member of our country's leading tourism organisation, VisitBritain.

In many ways, I feel all this has been in preparation for this tremendous opportunity to lead Whitbread. I am passionate about the task ahead and deeply appreciative of the board who have given me their unanimous support.

These are exciting times for Whitbread.

Alan Parker
Chief executive designate

4 May 2004

Truly **great brands** live above and beyond the sum of their products and services. At **Whitbread** **we are building great brands**. Already we have brands that are **leaders in their markets**, and we are committed to achieving that position across our business as a whole.

measures of success

a passion for winning. Our brands will be number one in every market we serve

power of brands

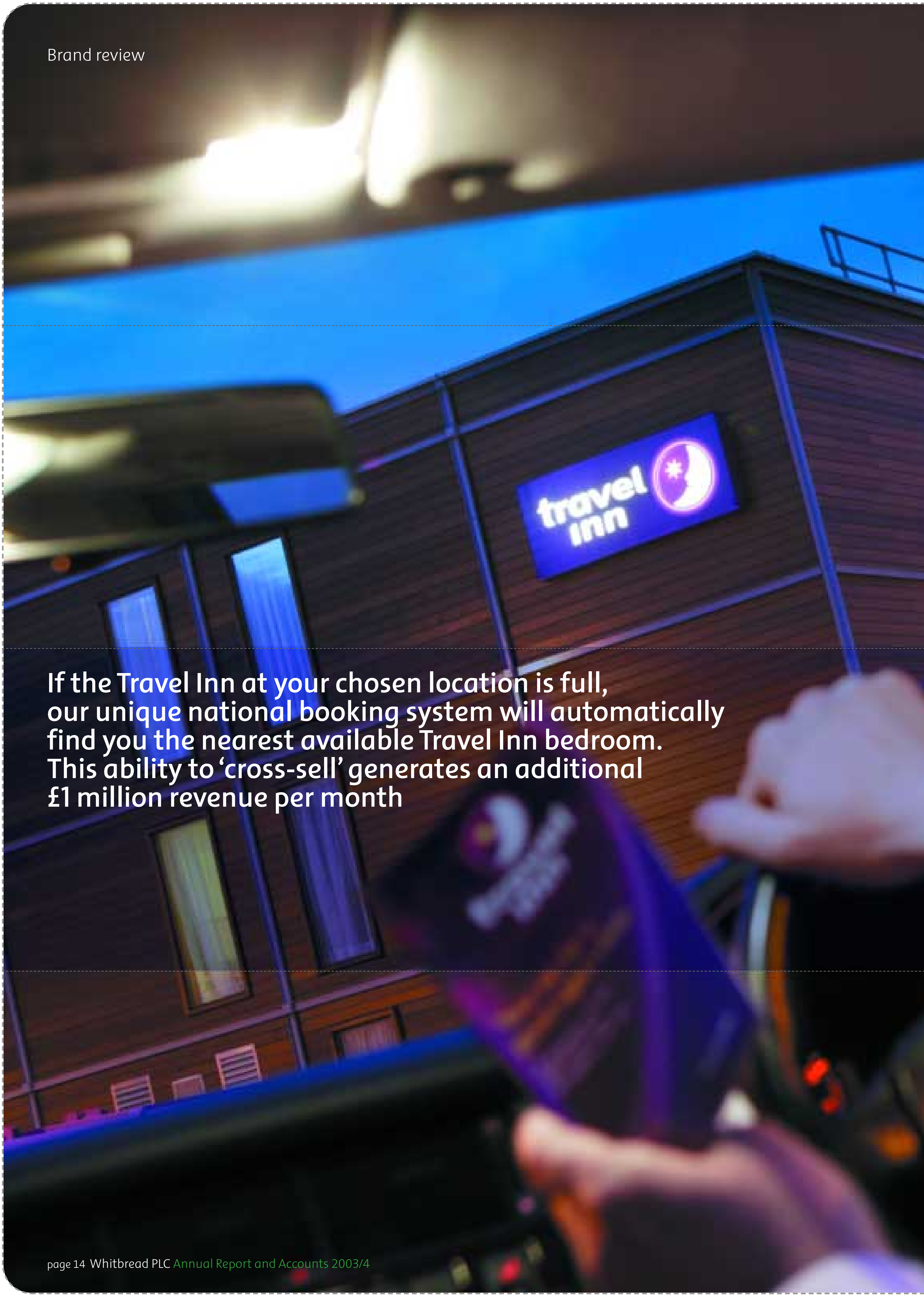
quite simply, leaders in their markets, with strong connections with their customers

strength of management

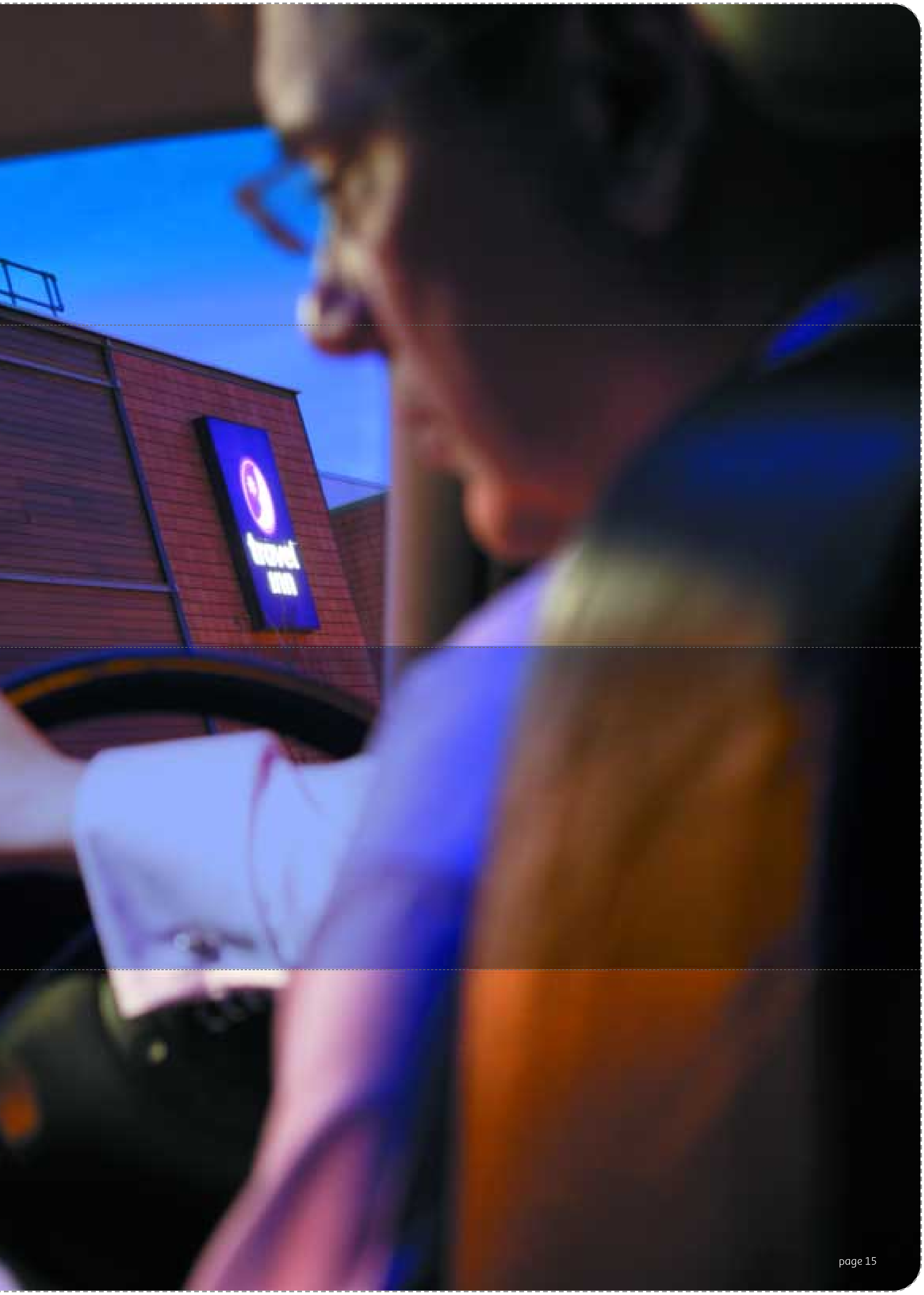
we have exceptionally talented leaders, we have processes that are both imaginative and rigorous. We make our decisions work better

insights on leisure

we have deep insights into what customers want and the determination to build our businesses around those insights



If the Travel Inn at your chosen location is full, our unique national booking system will automatically find you the nearest available Travel Inn bedroom. This ability to 'cross-sell' generates an additional £1 million revenue per month



Marriott

101%

profit per room performance measured against 'best in class' and market competitors

Source: TRI Hospitality Consulting, March 2004

power of brands

The opening of the London Marriott Kensington in July 2003 represented the culmination of a three-year programme to convert 25 former Swallow hotels to the Marriott brand.

The redevelopment of the 216-bedroom property on Kensington's Cromwell Road, with its impressive eight-storey glass atrium, was the most ambitious of all the conversions.

The return on Whitbread's investment comes from the higher room rates and improved occupancies that the hotel is now capable of achieving.

strength of management

Focus on operational excellence

Since Whitbread acquired the Marriott franchise in 1995 it has moved the brand from cameo status to the second largest four-star hotel business in the UK, with almost 10,000 bedrooms.

Marriott's emergence in this sector is no longer driven exclusively by major capital investment, as we seek more imaginative routes to market.

In February 2004 the business secured agreement to operate Manchester's Victoria & Albert Hotel under the Marriott brand from the hotel's owners, Royal Bank of Scotland. It is part of an approach that focuses on operational excellence and brand management to drive improving returns from our shareholders' capital.

insights on leisure

Consistent excellence in customer service is the key to brand preference in four-star hotels.

Marriott's 'Spirit to Serve' programme focuses every associate on a common goal – exceeding guest expectations. Over the last year it has helped the brand to set new benchmarks for guest satisfaction.

Travel Inn

11%

increase in operating profit

"I believe that Travel Inn is the best budget hotel business in the UK today. I believe it because we have held occupancy above 80% year after year; I believe it because we are able to improve revenue per available room with the same consistency.

"All these factors enable us to make returns that are difficult to match anywhere else in the sector."
– **Mike Tye**, managing director of Travel Inn

Satisfaction guaranteed

Transparent pricing and a remarkably consistent and well-invested estate gives each guest the assurance that he or she pays the same price and enjoys the same standard of hospitality as every other guest staying in the same Travel Inn on the same night.

The brand's '100% Satisfaction Guarantee' is a promise of a full and immediate refund if any Travel Inn guest is unhappy with his or her night's stay. Unique among major UK hotel brands, it is important in helping to build consumer trust and is an expression of the brand's confidence in itself.

18,173

bedrooms makes Travel Inn the largest hotel brand in the UK

For the second year in succession Travel Inn has been voted one of the top 100 companies in Britain to work for*, improving its standing from 91st to 72nd. Travel Inn is the only hotel brand featured in the list.

**Sunday Times* survey – March 2004

Fast-track

A hotel is a people business – but that doesn't stop Travel Inn from using cutting edge technology to improve customer service.

"The fact that over 20% of our room bookings are made through our website tells us something about the importance to our guests of web communications. Working with Swisscom Eurospot we are installing wireless internet access in every single Travel Inn.

"We are also building on advances in voice-recognition software to improve our telephone bookings: guests can now make reservations faster; while our Travel Inn reception staff have more time to deal with customers face-to-face."
– **Mike Tye**, managing director of Travel Inn.

measures of success

Brewers Fayre and Brewsters

16.0%
operating margin

In an environment of rising business costs, Brewers Fayre and Brewsters have once again made significant improvements in operating margin, up 0.6% point on last year.

power of brands

Serving Britain's Favourite Pub Food

National brand, local reputation

Brewers Fayre is a national brand built on the local market-place reputation of more than 240 individual pub restaurants.

For regulars, Brewers Fayre is the *Dog & Partridge*, the *Three Horseshoes* or *Whitewebbs House*. The brand itself is a hallmark of quality, and shorthand for honest pub food served in traditional and welcoming surroundings.

Whitbread understands the strength of a house's distinctive character and the importance of maintaining the right balance between the national brand and the local name.

strength of management

Rejuvenation

In 2003/4, 45 Brewers Fayres were touched by 'rejuvenation' – a rolling programme of minor refurbishments that keeps the estate fresh.

"Rejuvenation helps Brewers Fayre to move forward, evolving with consumer tastes." – **Ian Webster**, managing director of Brewers Fayre and Brewsters.

insights on leisure

A family favourite

The most common reason people choose to dine at Brewers Fayre is when they want a relaxed and informal meal out with friends and family.

"It's important that our customers feel at home when they're out for a meal with us. That is why Brewers Fayre means comfortable surroundings, friendly service and a menu of familiar favourites for every member of the family.

"By focusing on these key areas we are delivering on our promise to serve 'Britain's favourite pub food'." – **Ian Webster**, managing director of Brewers Fayre and Brewsters.

Brewsters is 2004's 'Parent Friendly Restaurant of the Year'. This is the third time in succession that Brewsters has picked up the accolade, which is awarded by Tommy's, the baby charity.

Brewsters

A unique market position

The creation of Brewsters in 2000 may be viewed as a bold step or a piece of inspired thinking, depending upon one's perspective.

Until that point, Whitbread's Brewers Fayre brand had been many things to many people: in some locations it was a classic British food pub; in others a family-focused restaurant, with excellent children's play facilities.

In deciding to segment the estate, Whitbread created the UK's first national brand of restaurants aimed specifically, though not exclusively, at young families.

It has enabled Brewsters to establish a unique market position, and has helped Brewers Fayre to define itself more clearly in the minds of consumers.

"Our managers are a talented bunch – they have to be. The ability to run a pub restaurant, a fun factory for kids and in many cases a Travel Inn as well requires a particular set of skills."
– **Ian Webster**, managing director of Brewers Fayre and Brewsters.

Peace of mind

Brewsters understands that while parents sometimes need a break, their children are never far from their thoughts.

That is why the Brewsters brand has been built around the idea of providing fun for children and peace of mind for parents: all Brewsters Fun Factories are equipped with Parentcam CCTV; and all children in the Fun Factory are kitted out with a security tag that alerts parents and staff should a child leave the Fun Factory.

The new Beefeater restaurants give customers the feeling of private dining space. This innovation is helping the brand to attract a new generation of diners

Beefeater

3.9%
like-for-like sales growth

power of brands

In February 2003, Whitbread unveiled a new format for its classic Beefeater brand.

The restaurants themselves have a more contemporary feel, the service is less formal and the menu allows customers to be as adventurous as they choose with a range of special dustings, marinades and sauces.

By concentrating on great grilled food, Beefeater is winning over a new generation of diners.

strength of management

Higher profits, fewer assets, better returns

The Beefeater brand is now starting to deliver on its potential, driving higher profits out of fewer sites and a lower capital base.

Over the course of the year, return on capital employed has moved ahead by two percentage points to 9%, and a further improvement is being targeted.

A new format for the brand has been rolled out to 24 sites; and there are 40 more to come in 2004/5.

Initial results are encouraging with a 30% sales uplift in sites that have been trading for a full 12 months, while return on capital employed in those sites now stands at 12.3%.

insights on leisure

"People only relax if they feel secure in their environment. We know that our customers won't really enjoy their meal if they feel self-conscious or in the way of others. For the time they spend with us, our customers need to feel that they 'own' their space within the restaurant."

– **Neil Riding**, managing director of Beefeater, explains why 90% of all seating in new style Beefeater is in booths.

T.G.I. Friday's

Between 16 and 22 December 2003, T.G.I. Friday's in London's Haymarket chalked up world record gross sales of £178,015, the most that any of the brand's restaurants around the globe has ever taken in a single week.

"You may have noticed a few changes at T.G.I. Friday's over the last year. We have updated the look and feel of the restaurants while taking care to preserve the idiosyncrasies that make us special." – **Guy Parsons**, managing director of T.G.I Friday's.

Building strong teams

T.G.I. Friday's understands the importance of stability and commitment in building strong teams.

Three in five store managers are appointed from within the brand; while four out of five operations managers are former store managers.

This brand strength has played a significant part in halving overall employee turnover at T.G.I. Friday's in just four years.

41

T.G.I. Friday's
restaurants in the UK

"At T.G.I. Friday's we believe that our menu has something for everyone and we hold true to our 'Five Easy Pieces' promise that if we have the ingredients we will create dishes to order." – **Guy Parsons**, managing director of T.G.I Friday's.

measures of success

Pizza Hut

Pizza Hut UK's reach has never been greater. The net addition of 29 new full-service restaurants and 32 new home delivery units in 2003/4 is giving more people across the country the opportunity to 'grab a slice of the action'.

power of brands

578

Pizza Hut units in the UK

Delivering on a promise

Pizza Hut promises that every pizza delivered to customers will be 'hot and on time'.

The brand's claim is backed up by the offer of a free order next time if it fails to deliver on this promise.

strength of management

"Every single one of our restaurants – both full service and delivery – is now measured against its own specific 'balanced score card'." – **John Derkach**, managing director of Pizza Hut (UK) explains why his brand has beaten its targets for financial performance, customer preference and team member satisfaction.

insights on leisure

Being in the right place...

Pizza Hut shapes its distribution to consumer lifestyles.

For many people a meal out is no longer the central event. Instead it is something that accompanies other activities, like a trip to the shops, a family outing to the cinema, or a night at home in front of the TV.

This is behind the brand's move into retail and leisure parks and also explains the growing popularity of its home delivery franchises.

Costa

30 million

cups of coffee sold in Costa stores

Competitive edge

Costa is the only major branded coffee store business that roasts and blends its own coffee. This gives the brand a significant advantage in a competitive marketplace, and has opened up new opportunities to develop through franchising.

Costa already has a franchise agreement in the UK with RoadChef, the motorway services group; and has developed a brand-presence in the Middle East through four separate overseas franchise partners.

Ahead of the pack

Seeking imaginative routes to market has helped Costa draw clear of the chasing pack in the UK branded coffee store sector.

"We put great effort into understanding where our customers want us to be. We now have a better quality estate of Costa stores, a developing franchise business and agreements with some of the strongest names in UK retail including Waitrose, Abbey, Ottakar's, Waterstone's and RoadChef."
– **Mark Phillips**, managing director of Costa.

People in Britain still drink more instant coffee, on average, than any other nation in Europe. Nine years ago, Whitbread spotted the opportunity to introduce more of them to real coffee served the Italian way. Since then Costa has moved from fledgling business to flourishing national brand.

David Lloyd Leisure health and fitness coaches achieve qualifications from the National Academy of Sports Medicine. Our members benefit from working with the best


David Lloyd
PERSONAL
TRAINER

David Lloyd Leisure

£49.1m

operating profit before goodwill amortisation

In achieving double-digit profit growth for three years in a row, David Lloyd Leisure has signalled its arrival as a real powerhouse brand.

But it is the manner in which the business has achieved this that really stands out; generating most of its recent growth from better management of established clubs, rather than the headlong pursuit of scale.

power of brands

321,000

members of **David Lloyd Leisure** clubs

Trust

The most powerful expression of the David Lloyd Leisure brand is the trust members place in its people. That is why you will find only David Lloyd Leisure fitness coaches in David Lloyd Leisure clubs.

The brand requires every one of its health and fitness coaches to undergo training at the David Lloyd Leisure Campus, to study for and attain a Related Vocational Qualification from the National Academy of Sports Medicine.

strength of management

"Our club managers are focused on member retention and the creation of economic profit. Their understanding of member needs, combined with a heightened appreciation of the assets they control is changing the way our managers think about the business. This more than anything has led to the 2.9% points improvement on return on capital employed over the last 3 years."
– **Stewart Miller**, managing director of David Lloyd Leisure

insights on leisure

"No two people join our clubs for precisely the same reason. We seek to understand what our members want to achieve and what will motivate them to be successful; and then we tailor solutions to meet their needs.

"We know how powerful group exercise can be in helping people to remain focused and to find enjoyment in the pursuit of a sports, health or fitness goal. This is why our clubs typically provide 60 hours of group exercise classes every week – many of them designed specifically for children." – **Stewart Miller**, managing director of David Lloyd Leisure

Brand distribution

Whitbread is predominantly a UK business, with more than 1,900 outlets across the country

62 upscale hotels, comprising 9,648 bedrooms, across the UK under Marriott brands.

302 budget hotels, comprising 18,173 bedrooms, across the UK.

246 pub restaurants across the UK.

149 pub restaurants with children's Fun Factories across the UK.

187 full service pub restaurants across the UK under the Beefeater and Out & Out brands.

41 American restaurant & bar outlets across the UK.

578 full service, home delivery and takeaway outlets across the UK.

346 coffee stores, principally in the UK, but also under franchise in the Middle East.

56 tennis, health and fitness clubs in the UK and Ireland.

Overseas interests

Germany

Whitbread operates 63 full service steakhouse restaurants across Germany under the Maredo brand.

Whitbread also operates the Treudelberg Marriott Hotel & Country Club, outside Hamburg.

Netherlands

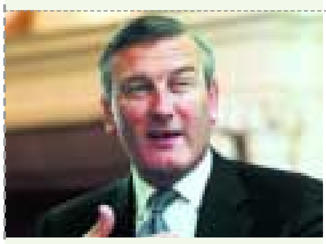
In December 2003, Whitbread acquired Cannons Health & Fitness BV from Cannons Health Clubs Limited for £21m.

The business comprises five existing clubs (which will be re-branded under the David Lloyd Leisure name) and two clubs currently in development. Working with a local partner, David Lloyd Leisure is currently seeking further sites in the Netherlands.

Board of directors

Sir John Banham

Position: Chairman (since June 2000)
Appointment to the Board: November 1999
Age: 63
Committee Membership: Nomination (Chairman)
External Appointments: Geest PLC (Chairman), Amvescap PLC (Senior Independent Director), ECI Partners LLP (Chairman), Cyclacel Limited (Chairman)
Previous Experience: Became the first controller of the Audit Commission in 1983
Appointed Director General of the CBI in 1987
Chairman of both Kingfisher PLC and Tarmac PLC during the 1990s as well as being the first Chairman of the Local Government Commission for England and founding Chairman of West Country Television



Rod Kent

Position: Senior Independent Director (since 24 April 2003)
Also Chairman of Whitbread Pension Trustees Limited
Appointment to the Board: September 2002
Age: 56
Committee Memberships: Audit, Nomination and Remuneration
External Appointments: Bradford & Bingley plc (Chairman), Grosvenor Limited (Chairman)
Close Brothers Group (Non-executive director), Grosvenor Group Holdings Limited (Non-executive director)
Esmée Fairburn Foundation (Trustee)
Previous Experience: Gained extensive investment banking experience as Managing Director of Close Brothers Group until October 2002

Charles Gurassa

Position: Independent Non-Executive Director
Appointment to the Board: July 2000
Age: 48
Committee Memberships: Nomination, Remuneration (Chairman)
External Appointments: Whizzkidz Limited (Director), 7days Limited (Chairman)
Previous Experience: Has significant knowledge and experience in the travel and tourism industry, having been Chief Executive of Thomson Travel Group and a director of TUI AG
Previously the head of Leisure, World Sales and director of Passenger and Cargo Business at British Airways

Prue Leith

Position: Independent Non-Executive Director
Appointment to the Board: September 1995
Age: 64
Committee Memberships: Audit, Nomination, Remuneration
External Appointments: Woolworths Group PLC (Non-executive director), Omega International Group PLC
Previous Experience: Gained extensive knowledge and experience in contract catering and restaurant management as the founder of Leith's Limited
Non-executive director of Safeway PLC and Halifax PLC

David Turner

Position: Independent Non-Executive Director
Appointment to the Board: January 2001
Age: 59
Committee Memberships: Audit (Chairman), Nomination, Remuneration
External Appointments: Brambles Group (Chief Executive),
Previous Experience: Finance Director of GKN PLC
Brings significant financial expertise to the company, both as a member of the Board and as Chairman of the Audit Committee

Lord Williamson

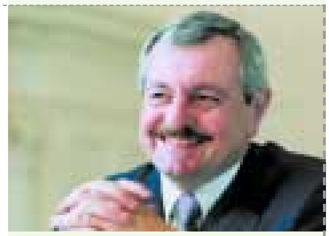
Position: Independent Non-Executive Director
Appointment to the Board: May 1998
Age: 69
Committee Memberships: Audit, Nomination, Remuneration
External Appointments: Active member of the House of Lords
Previous Experience: Has significant civil service experience, having held a number of key posts:
Deputy Director General for Agriculture at the European Commission (1977 – 1983)
Head of the European Secretariat, UK Cabinet Office (1983 - 1987)
Secretary-General of the European Commission (1987 - 1997)

Board of directors

David Thomas CBE

Position: Chief Executive (since June 1997 – will retire in June 2004)
Appointment to the Board: May 1991
Age: 60
Committee Membership: Nomination
External Appointments: Xansa PLC (Non-executive director), In Kind Direct (Chairman elect), Sandown Park Limited (Non-executive director), Sector Skills Council for the Hospitality, Leisure, Travel and Tourism sector (Trustee)
Previous Experience: Previously with Finefare, Linfood and Grand Metropolitan
Joined Whitbread in 1984
Held position of Managing Director with both Whitbread Inns and Whitbread Restaurants and Leisure

Stewart Miller



Position: Managing Director, David Lloyd Leisure (since May 2001)
Appointment to the Board: May 2000
Age: 51
External Appointments: Business in Sport and Leisure Limited (Director), Skills Active UK (Director)
Previous Experience: Joined Whitbread in 1981
Roles have included Managing Director of both Whitbread Pub Partnerships and Whitbread Pubs & Bars as well as Chief Executive of Pizza Hut (UK)

Alan Parker

Position: Managing Director, Whitbread Hotel Company (will succeed David Thomas as Chief Executive in June 2004)
Appointment to the Board: May 2000
Age: 57
External Appointments: VisitBritain (Director), British Hospitality Association (Council Chairman) University of Surrey (Visiting Professor)
Previous Experience: Managing Director of Crest Hotels Europe, based in Frankfurt
Senior Vice-President of Holiday Inn Europe, Middle East and Africa, based in Brussels
Joined Whitbread in 1992 as Managing Director of Hotel Company

David Richardson

Position: Finance Director (since March 2001)
Appointment to the Board: May 1996
Age: 52
External Appointments: Serco Group PLC (Non-executive director and Chairman of Audit Committee), Britannia Soft Drinks Limited (Director)
Previous Experience: Qualified as an accountant with Touche Ross, before moving to ICL
Joined Whitbread in 1983. He was Whitbread Restaurants Planning Director and became Strategic Planning Director in 1996

Angie Risley

Position: Group Human Resources Director
Appointment to the Board: 1 May 2004
Age: 45
External Appointments: Member of Low Pay Commission
Previous Experience: Joined Whitbread in 1985 as Human Resources Director Pizza Hut (UK)
Roles have included Human Resources Director of Whitbread Hotel Company and Whitbread Restaurants

Bill Shannon

Position: Managing Director, Whitbread Restaurants (will leave the company in June 2004)
Appointment to the Board: December 1994
Age: 54
External Appointments: Aegon UK PLC (Non-executive director)
Joined Whitbread in 1974 as a finance manager
Previous Experience: Has also been Managing Director of Beefeater Restaurant and Pub, Thresher, Whitbread Pub Partnerships and Whitbread Inns
Chairman of Pizza Hut (UK)

The directors present their report and accounts for the year ended 4 March 2004.

Principal activities and review of the business

A detailed review of the company's activities, the development of its businesses, and an indication of likely future developments are given on pages 5 to 29.

Results and dividends

Group profit before tax and exceptional items	£240.8m
Group profit before tax and after exceptional items	£211.7m
Interim Dividend paid on 6 January 2004	6.15p per share
Recommended Final Dividend	16.15p per share
Total Dividend for the Year	22.30p per share

The final dividend will be payable on 16 July 2004 to shareholders on the register at the close of business on 14 May 2004. The company aims to pay dividends of approximately 40% of profits after tax, giving a dividend cover of some 2.5 times.

Shareholders may participate in a dividend reinvestment plan, under which their cash dividend is used to purchase additional shares in the company. Further details can be found on page 81.

Board of directors

The directors are listed on pages 30 and 31. With the exception of Angie Risley, who was appointed to the board on 1 May 2004, all of the directors served throughout the financial year. David Thomas and Bill Shannon will stand down following the AGM on 15 June 2004.

Angie Risley will stand for election and Sir John Banham, Alan Parker and Stewart Miller will stand for re-election at the forthcoming AGM in accordance with the company's articles of association. Details of directors' service contracts are given on page 42. None of the non-executive directors has a service contract.

Details of the directors' interests in shares of Whitbread PLC are shown in the Remuneration Report on pages 44 to 48.

Share capital

Throughout the year, the authorised share capital has been £315,000,000 divided into 630,000,000 ordinary shares of 50 pence each. Details of the issued share capital can be found in note 25 in the notes to the accounts.

Major interests

As at 28 April 2004, the company had been notified of the following major interests:

	No of Shares	% of issued capital
AXA S.A.	54,627,046	18.36
L&G IML*	14,537,736	4.89

*Legal & General Investment Management Limited

Supplier payment policy

The group keeps to the payment terms which have been agreed with suppliers. Where payment terms have not been specifically agreed, it is the group's policy to settle invoices close to the end of the month following the month of invoicing. The group'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 group had 39 days' purchases outstanding at 4 March 2004, based on the trade creditors outstanding at that date and purchases made during the year.

Auditors

Ernst & Young LLP 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 AGM.

After proper consideration, the Audit Committee is satisfied that the company's auditors, Ernst & Young LLP, continue to be objective and independent of the company. In coming to this conclusion the Audit Committee gave full consideration to the non-audit work carried out by Ernst & Young LLP.

The Audit Committee has considered what work should not be carried out by the external auditors and have concluded that certain services including internal audit, acquisition due diligence and IT consulting services will not be carried out by Ernst & Young LLP.

Purchase of own shares

The company is authorised to purchase, in the market, the company's own shares. Although no such purchases have been made during the year, approval to renew this authority for a further year will be sought from shareholders at the 2004 AGM.

Annual General Meeting

The AGM will be held at 2.00pm on 15 June 2004 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE. The notice of meeting is enclosed with this report and is accompanied by a letter from the Chairman.

By order of the board

S C Barratt
Company Secretary

4 May 2004

Registered office:

CityPoint
One Ropemaker Street
London
EC2Y 9HX

Registered in England:
No. 4120344

Whitbread takes corporate social responsibility (CSR) very seriously with Angie Risley, group human resources director, being the director with board responsibility. It is integral to the business behaviour of each of the company's brands. The relationships that we enjoy with our stakeholders reflect the value that the company attaches to CSR. Whitbread believes that business has an important role to play in creating healthy communities in which to trade and that being a good corporate citizen is an essential ingredient in achieving sustainable growth.

For Whitbread, corporate social responsibility is:

Being the 'Employer of Choice' – implementing policies that will help Whitbread become the 'Employer of Choice';

Taking the environment seriously – reducing its environmental impact where it makes sound commercial sense;

Community commitment – building strong and mutually beneficial partnerships with its communities;

Marketplace leadership – running its businesses in a way that will single it out as a great provider of services, and a favoured partner to do business with.

In addition Whitbread maintains high standards of corporate governance (the Corporate Governance report is set out on pages 36 to 39 of these report and accounts.)

To demonstrate the importance of CSR to the company an in-depth report can be found on the company's website (www.whitbread.co.uk). This section of the report and accounts however, explains some of the policies which have been agreed at group level. It also highlights, through a number of case studies, ways in which some of our brands have applied these policies in practice.

'Employer of Choice'

Whitbread is committed to offering its people a rewarding and challenging workplace. It aims to become the 'Employer of Choice', demonstrated by current and past employees recommending the company as a great place to work.

In pursuit of this goal Whitbread has a range of policies covering such issues as diversity, employee well-being and equal opportunities. The company will continue to develop policies on any other human rights issues which may arise.

Travel Inn – A top 100 employer

Travel Inn has followed on from a number of our other brands by being included in the *Sunday Times* list of the top 100 best companies to work for. In particular, Travel Inn was recognised for showing strength in the following areas:

- strong sense of family within its teams;
- open and honest communication between managers and employees;
- excellent training schemes including induction, service training, appraisal and graduate training;

Travel Inn was the only UK hotel company in the top 100. Managing director, Mike Tye, commented that he was 'extremely proud to be part of a business that is so highly rated by the people who work for us'.

In addition to Travel Inn's inclusion in the the *Sunday Times* list, Marriott and T.G.I. Friday's are the only hotel and restaurant businesses to be included in the *Financial Times* list of the best 50 companies to work for.

Training & development

The recruitment and retention of highly motivated and talented people is essential. Great emphasis is placed on improving the skills, expertise and performance of employees through a continuing programme of training and development.

Whitbread Restaurants

Whitbread Restaurants has created the Chef Modern Apprenticeship Scheme. This year alone it has recruited over 250 people who are currently working towards an NVQ award.

Marriott

Marriott's Apprenticeship Scheme currently has more than 400 young people working towards either foundation or advanced modern apprenticeships. They came from across the country and most areas of hotel operation, including reception, administration, kitchen, restaurant, bar, as well as spa and leisure club. The Marriott Golf Management Diploma, the Marriott Virtual University and the Marriott Graduate Programme are further examples of Marriott's commitment to training and development.

David Lloyd Leisure

David Lloyd Leisure has demonstrated the importance that it attaches to training and development by creating its own 'Campus'. It has also developed an industry-leading RVQ qualification in health & fitness training. To date 600 employees have achieved this qualification.

Employee involvement

Whitbread is committed to listening to and involving its employees and believes that open and regular two-way communication at all levels is an essential part of the management process.

All employees are asked their views via regular opinion surveys and specific plans are put in place to address feedback from these surveys.

Employees also have opportunities to express their views and receive information about the company at regular meetings with management, through elected representatives at 'Business Improvement Groups'.

Beefeater

In a recent opinion survey over 80% of the Beefeater workforce said that they were 'satisfied' working for the company. However, a number of employees felt that they could perform even better with additional training and there was the suggestion that staff facilities could be improved. The company listened to the views expressed and, as a result, a new training programme has been created and work has begun to improve facilities for staff.

Employee share scheme

In December 2003, 2,551 employees were granted options over 1,005,199 shares at 610.7 pence under the terms of the Savings-related Share Option Scheme. At 21 April 2004 over 5,000 employees held options over more than 3.7 million shares under that scheme.

Disability management

As part of an ongoing and rigorous policy review process, the company is committed to implementing a formal disability management policy. This includes a detailed training programme to ensure that Whitbread is capable of offering people with disabilities the same employment opportunities as other employees.

If an employee becomes disabled in the course of his or her work with the group, full support can be provided. This may be through training programmes for example, to ensure that wherever possible, the individual can remain in continued employment within the group.

Health & Safety

Whitbread endorses the Health & Safety Commission's 'Revitalising Health & Safety' strategy and in support of this:

- the Chief Executive has been appointed the director responsible for ensuring that health & safety risk issues are addressed;
- brand managing directors have submitted papers to the board setting out their personal commitment and the strategy for embedding health & safety throughout their businesses;
- each brand has a health & safety plan that is reviewed each quarter
- quarterly health & safety performance reports are presented to the board for review.

During the year:

- the health & safety officers in each David Lloyd Leisure club received an externally accredited Chartered Institute of Environmental Health (CIEH) qualification in health & safety;
- an indoor play area child safety video was produced for Whitbread Restaurants and distributed into the business;
- over 750 restaurant brand unit and area managers attended full day health & safety workshops;
- ten Marriott hotel managers received the advanced CIEH accreditation in health & safety with more courses planned for next year;
- swimming pool safety was reviewed and revised;
- crisis management plans have been reviewed and tested;
- the number of reportable employee accidents was reduced by 10% from 393 to 352.

The environment

Whitbread has long been aware of its responsibility to the environment, and three years ago stepped up its commitment. There is now a formal policy and progress is reported on Whitbread's website. The aim is to improve performance every year and new systems are being put in place to track progress more accurately.

The sheer scale of its business makes Whitbread a significant contributor to the UK economy. However, the company is also aware of the potential scale of its environmental impact.

Whitbread is committed to reducing that impact and making a positive contribution when appropriate. This is not only because it wants to be counted as a company which makes a difference, but also because it makes sound commercial sense.

Nevertheless, over the last three years the company has been working towards a unified approach wherever it makes good business sense and at the same time focusing its energies on achieving verifiable measurement systems for all its major environmental performance areas across its businesses.

Whitbread Food Logistics

Whitbread Food Logistics (WFL) is responsible for the distribution of food, drink and supplies to the group's 1,900 restaurants, hotels and clubs throughout the UK. Its fleet of 105 articulated trucks delivers 20 million boxes and travels almost 11 million km a year.

By routing its trucks more efficiently, using only modern vehicles five years old or less, and introducing backhauling (collecting from our suppliers on the way back from deliveries) WFL managed to significantly reduce CO_2 emissions and generate significant cost savings to the business.

WFL has pioneered state-of-the-art technology within the fleet with foot-operated tail lifts that synchronise with rolling shutter doors. These not only reduce driver fatigue and improve safety they also provide better temperature control thereby reducing the amount of diesel needed to run the refrigeration units. All WFL's vehicles now have this new technology.

There were a number of highlights in 2003/4:

- energy consumption reduced by 7.8% on a like-for-like basis across the group, and by 15% at David Lloyd Leisure;
- CO_2 emissions reduced by almost 25,000 tonnes during the year;
- Water consumption reduced by 262,000 cubic metres, equating to an annual cost saving of £470,000;
- A new partnership agreement was signed with Groundwork under which Whitbread is set to deliver 300 regeneration / environmental projects nationwide over the next three years.

A greener car fleet

Whitbread has been working hard to reduce the environmental impact of its car fleet since 1999, and was recently awarded its third 'green star' under the Government backed Transport Energy Motorvate scheme. The scheme recognises company car fleets that are managed in an environmentally responsible manner.

Community commitment

The Whitbread group has been actively involved in the community for over 25 years. Throughout that time it has started, funded, joined or supported a range of leading and award-winning programmes.

During last year alone, Whitbread's community investment programme, including the Whitbread Charitable Trust, contributed over £2m. This was made up of direct cash contributions, donated employee time and re-cycled furniture and equipment. In addition, Whitbread's employees, members and guests have raised a further £1m through charitable activities.

The umbrella theme of the company's programme is 'helping young people achieve their potential', specifically because young people are critical to its business. Not only does Whitbread employ many thousands of young people, but many tens of thousands more are among its customers.

To realise the ambition of helping young people, Whitbread has established a number of successful partnerships with young people's charities and organisations at national level.

Whitbread Young Achiever Awards

The new Whitbread Young Achiever Awards, launched in 2003 in partnership with the Home Office Active Community Unit, specifically recognise and reward the outstanding achievements of young volunteers, aged 16 to 25, in four areas: sport, community, environment and the arts.

Each category is sponsored jointly by a charity or industry partner and one of our brands:

The Sport Award – Sport England and David Lloyd Leisure;

The Community Award – The Home Office Active Community Unit and Costa;

The Environment Award – Groundwork and Marriott;

The Arts Award – The RSA and T.G.I. Friday's.

In its first year, the awards attracted almost 500 nominations on behalf of young people throughout the UK. In addition to a significant cash prize for personal and project development, the winners received 12 months follow-up support, which included many 'money can't buy' opportunities.

Charities of the year

Following an extremely successful partnership with Comic Relief for Red Nose Day 2003, which saw Whitbread Restaurants raise over £500,000 for the charity, the company's individual restaurant brands have been researching and signing up with 'charity of the year' partners.

Each brand was looking for a partner which was either already doing, or had the potential to do, extraordinary work with young people. One such partnership is between Brewsters and the Children's Wish Foundation.

Brewsters and Children's Wish Foundation

Children's Wish Foundation is about families, with its aim of bringing happiness to very sick children and their families by making their special dreams come true.

Brewsters is committed to working with Children's Wish Foundation and harnessing the power of 'extraordinary' people. We believe that with our customers' support, we can make a difference to children suffering from debilitating or potentially terminal illnesses.

Customers and staff nationwide are now being invited to nominate young people and their families who could benefit.

Another successful partnership is that between David Lloyd Leisure and the Sir Steve Redgrave Charitable Trust.

David Lloyd Leisure Flag Relay

During 2003, David Lloyd Leisure signed up to a new partnership with the Sir Steve Redgrave Charitable Trust in a bid to help raise thousands of pounds for the five-times Olympic champion's young people's charity.

The first major project of the partnership got off to a great start when members of David Lloyd Leisure carried a symbolic flag in a six week fund-raising relay.

Starting in May, members and staff transported the flag by land and sea between each of David Lloyd Leisure's 55 clubs. The relay started in Dublin, travelled north to Belfast before crossing to Glasgow in 'Drum', the veteran of the Whitbread Round the World Yacht Race, and making its way south via the Derby Water Sports Centre. The flag arrived in London in June when Sir Steve joined the team in a final row up the Thames to County Hall.

The relay raised over £125,000 for the Trust all of which is now being distributed to the local young people's charities nominated by members and staff at each of David Lloyd Leisure's clubs.

Marketplace leadership

Whitbread aspires to running its businesses in a way that singles it out as a great provider of services and a favoured partner to do business with.

Suppliers

Whitbread is wholly committed to an ethical way of operating and sets out clear standards of behaviour for all employees in the Code of Business Ethics. This code extends to dealings with suppliers and the company's fair trading policy sets the objective of ensuring that suppliers share the company's values and commit to meeting its standards.

Costa – Fairtrade

Costa supports Fairtrade, the global organisation dedicated to ensuring that communities which grow products such as tea and coffee receive a fair price for their work and products.

Fairtrade accredits companies which buy direct from the growers and thus benefit them and their communities. Cafedirect is the leading British Fairtrade accredited tea and coffee company, and Costa has been stocking its products for several years.

Investing to meet customer needs

Whitbread has always worked hard to make sure all its customers and guests have the opportunity to enjoy all its facilities. For example the company has developed a specific compliance programme for the requirements of the Disability Discrimination Act.

Ensuring customers can make informed choices

While Whitbread is passionate about making sure its customers have a great time when they visit its restaurants, the company is also keen to be known as a responsible restauranteur. With this in mind Whitbread has undertaken significant work across its brands to reduce the salt levels in many of its most popular dishes. In addition Whitbread has increased the number of healthier meal options available on its children's menus.

Beefeater has also increased the proportion of grilled dishes and given its guests increased opportunities to choose healthier meals.

This report has highlighted just a few examples of Whitbread's approach to CSR. There are many others from around the group. Further, in depth, information on the company's policies and activities will be available in the CSR section of the company's website. (www.whitbread.co.uk).

This report is written at a time of transition in the corporate governance arena. Whitbread is not required to make a statement on its compliance with the new Combined Code[1] until this time next year.

However, as the company is committed to high standards of corporate governance, it has been decided to explain in this report how the main and supporting principles of the new Combined Code are being applied. The company fulfils this year's reporting requirements by making a statement of compliance against the current Combined Code[2], as well as making a voluntary additional statement about compliance with the new Code.

Attendance at meetings

The following table identifies the number of board and committee meetings held during the past year and the attendance record of each individual director

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings in the year	11	4	9	5
Sir John Banham	11	3*	9	5
Stewart Miller	11			
Alan Parker	11			
Bill Shannon	11			
David Richardson	11			
David Thomas	11			4
Charles Gurassa	10		8	5
Rod Kent	9	3	8	4
Prue Leith	11	3	8	5
David Turner	10	4	7	4
Lord Williamson	11	4	9	5

* Sir John Banham resigned as a member of the Audit Committee following the adoption by the committee of new terms of reference on 22 July 2003. He attended all three of the meetings of the Audit Committee which took place while he was still a member of the committee.

Directors

The Board

Throughout the financial year the board consisted of the Chairman, five independent non-executive directors and five executive directors. Key points to note are:

- the board endorses the company's strategic aims and ensures that the necessary resources are in place in order to meet those aims;
- the board has responsibility for ensuring that the company's obligations to its shareholders are met;
- all members of the board take collective responsibility for the performance of the company and all decisions are taken objectively in the interests of the company;
- an updated schedule of matters reserved to the board was adopted in February 2004 and includes key aspects of strategy and management, financial reporting and controls, the management of shareholder communication, as well as the approval of policies and major transactions. The schedule can be seen in full on the company's website (www.whitbread.co.uk).
- The board met 11 times last year and the directors are given timely and appropriate information for each board meeting, including monthly financial and trading reports. The attendance records of individual directors can be found in the table above.

Chairman and Chief Executive

There is a clear division of responsibility between the Chairman and Chief Executive. This division is in writing as follows:

The Chairman is responsible for:

- running the board and setting its agenda;
- ensuring, through the Company Secretary, that the members of the board receive accurate, timely and clear information and that there is a good flow of information;
- managing the board to ensure that sufficient time is allowed for the discussion of complex or contentious issues;
- ensuring that the directors continually update their knowledge and capabilities;
- ensuring that the members of the board develop an understanding of the views of the major investors;
- the annual evaluation of the performance of the board and its committees.

The Chief Executive is responsible for:

- setting the strategic direction for the company;
- overseeing the day to day management of the company;
- the line management of senior executives, including the other executive directors of Whitbread PLC and the Company Secretary;
- the activities of the Leadership Group – a group of the company's 85 most senior executives;
- ensuring effective communication with shareholders;
- ensuring effective communication with employees.

[1] The new Combined Code is the Combined Code on Corporate Governance published in 2003 and effective for reporting years beginning on or after 1 November 2003.

[2] The current Combined Code is the Combined Code on Corporate Governance published in 1998.

Board balance and independence

The board is satisfied that none of the non-executive directors have circumstances or relationships, as defined in the new Combined Code, which are likely to affect, or could appear to affect, the director's judgement. The board therefore considers that all five non-executive directors are independent. Whitbread believes that its board is, and will continue to be, of a size appropriate for the requirements of the business and that it has a good balance between executive and independent non-executive directors. As part of their role the non-executive directors constructively challenge and assist in the development of strategy.

Appointments to the board

The company has a formal, rigorous and transparent procedure for the appointment of new directors. Appointments to the board are made on merit against objective criteria after receiving the recommendation of the Nomination Committee. Details of the membership, terms of reference and activities of the Nomination Committee can be found in the table on page 39. New directors stand for election at the AGM following their appointment. Every director is required to retire by rotation, and may stand for re-election if nominated by the Nomination Committee, at least every third year.

All new appointments of non-executive directors are for an initial fixed term of three years. Although in some circumstances a longer term may be deemed appropriate, the board has approved a guideline that non-executive directors should normally be expected to serve two three year terms. Prue Leith, who is currently serving a third three-year term, has indicated that she will not be seeking re-election at next year's AGM. The board has continued to benefit from Prue's significant experience in the leisure industry during her extended time as a director.

The Company Secretary is responsible for ensuring that on appointment new directors are given a formal and individually tailored induction. In the case of newly appointed non-executive directors this would typically include a number of visits to the company's brands to enable a thorough understanding of the businesses. New directors are available to meet major shareholders if requested.

The appointment of Alan Parker, as successor to David Thomas, to the position of Chief Executive was announced in December 2003. A case study outlining the processes that were undertaken by the company in making this appointment can be found below.

The appointment of Alan Parker as Chief Executive

The Nomination Committee has had a busy year with the search for a successor to David Thomas as Chief Executive. The following is a summary of the processes that were gone through to result in the announcement that Alan Parker will be the new Chief Executive:

- specifications for both the role and the type of individual required were prepared
- expressions of interest were received from internal candidates;
- consultants were used to identify external candidates;
- each shortlisted external candidate, as well as all internal candidates, were interviewed and given the opportunity to make a presentation to the Nomination Committee;
- detailed profiles were obtained for each candidate;
- after four formal Nomination Committee meetings, over a period of 12 months, a unanimous recommendation was made to the board that Alan Parker be appointed as the new Chief Executive.

Performance evaluation

The performance of the board, and individual directors' contributions to the board, are appraised annually by the Chairman. This year:

- the Chairman asked each director to complete a formal questionnaire on the board's performance;
- the Chairman met or spoke to each director on a one to one basis;
- the results of the review were discussed by the board and an appropriate action plan was agreed;
- all executive directors went through a formal evaluation process, undertaken by an external organisation, during the year.

The performance of the board's committees will be reviewed next year in line with their terms of reference.

The performance of the Chairman was evaluated during the year by Rod Kent, the Senior Independent Director, who discussed the Chairman's performance with the non-executive directors and some of the executive directors. The results of the review were given directly to the Chairman by Rod Kent. It is intended that Rod will hold a meeting with the other non-executive directors, without either the Chairman or Chief Executive being present, during 2004/5.

Shareholder relations

The company recognises the importance of dialogue with both institutional and private shareholders. Institutional shareholders, fund managers and analysts are briefed at regular meetings and presentations. In 2003/4 over 100 meetings were held with institutional shareholders, either one to one or as part of a larger grouping, both in the UK and abroad. The Chairman, executive directors, and the corporate affairs director all play an active part in these meetings. Recent topics of interest to investors have been the Chief Executive succession, continuing achievement of the company's growth targets, the possibility of reducing capital employed in the business and acquisition strategy. The board also receives a quarterly investor relations report which includes share price performance, movements in institutional holdings and the response by institutions to the communications programme. In addition a representative of one of the company's brokers attends one board meeting each year to update the board on the latest issues.

Annual and interim results presentations are webcast live so that all shareholders can receive the same information at the same time. The company's website provides comprehensive information for private shareholders and receives over half a million hits a year.

Private shareholders have the opportunity to put questions to the board at the AGM, and at all other times by e-mailing or writing to the company. In addition a presentation was made to members of the UK Shareholders' Association during the year.

Any shareholder may contact the Chairman, Chief Executive or, if more appropriate, the Senior Independent Director to raise any issue, or may raise any such issue with one or all of the non-executive directors of the company. The Company Secretary can facilitate any such communication if requested.

Remuneration

Details of how Whitbread has applied the main and supporting principles of the new Combined Code with regard to remuneration can be found in the Remuneration Report on pages 40 to 48. In addition the table on page 39 contains details of the membership, terms of reference and activities of the Remuneration Committee.

Board committees

The table on page 39 contains information relating to the Audit Committee, the Nomination Committee and the Remuneration Committee.

In addition to these three board committees:

- the board has delegated authority to the General Purposes Committee to deal 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;
- the Group Executive has met monthly to deal with the day-to-day management of the company. It comprises the executive directors, Mike Tye (managing director, Travel Inn) and Tim Hammond (corporate development director).

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, which is briefed annually to employees. 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.

In addition the company has a formal whistleblowing policy, which is set out in the Code of Business Ethics. Under the policy employees are able to speak to an independent organisation and any significant financial or control issues would then be brought to the attention of the chairman of the Audit Committee.

Accountability and audit

Financial reporting

The board always strives to present a balanced and understandable assessment of the company's position and prospects. This is the case for formal reports such as this, other price sensitive public reports, reports to regulators and any other information required by statute.

Internal controls

The board is responsible for the group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The board has established an ongoing process for identifying, evaluating and managing the group's significant risks. This process was in place throughout the 2003/4 financial year. The process is regularly reviewed by the board and accords with the internal control guidance for directors on the Combined Code.

Key elements of the group's risk management and internal control system include:

- the formulation, evaluation and annual approval by the board of business plans and budgets. Actual results are reported monthly against budget and the previous year's figures. Key risks are identified and action plans prepared accordingly;
- the production by each business of an annual risks and controls matrix, covering major risks and plans to mitigate those risks. These matrices are considered by the Group Executive and the Audit Committee;
- a regular review by the Group Executive and the board of changes in the major risks facing the group and development of the appropriate action plans;
- the Treasury Committee, which reviews treasury activities monthly. The committee is chaired by the finance director. Treasury activities are conducted in accordance with detailed procedures and mandates;
- the consideration of risks and the appropriate action plans, when appraising and approving all major capital and revenue projects and change programmes. A post completion review of each major project is undertaken;
- financial policies, controls and procedures manuals, which are regularly reviewed and updated;
- the limits of authority, which are prescribed for employees. The group's organisational structure allows the appropriate segregation of tasks;
- the group's Code of Business Ethics, which is briefed annually to employees and details of which can be found earlier in this report;
- the internal audit function, which reports on the effectiveness of operational and financial controls across the group. The Audit Committee regularly reviews the major findings from both internal and external audit. Details of the members, the terms of reference and the activities of the Audit Committee during the year can be found in the table on page 39.

The board has carried out a specific assessment of the group's system of internal control for the purpose of this annual report. The Group Executive and Audit Committee have assisted the board in discharging these responsibilities.

Statement of compliance

The company has complied throughout the year with the provisions set out in Section 1 of the current Combined Code with the exception of certain provisions relating to directors' service contracts and to the appointment of a senior independent director. However, Rod Kent was appointed as Senior Independent Director on 24 April 2003 and, as explained in the Remuneration Report on page 42, the executive directors' service contracts now comply with the provisions.

The Company Secretary produced a review of the company's corporate governance procedures, which was considered by the board in February 2004. The aim of the review was to consider whether the company complied with the new Combined Code. The board agreed that the company was already substantially in compliance with the new Code.

Board committees

	Audit Committee	Nomination Committee	Remuneration Committee
Chairman	**David Turner***	**Sir John Banham**	**Charles Gurassa**
Members of Committee	Rod Kent Prue Leith Lord Williamson	Charles Gurassa Rod Kent Prue Leith David Thomas David Turner Lord Williamson	Rod Kent Prue Leith David Turner Lord Williamson
Summary of key terms of reference (the full terms of reference can be found on the company's website and are also available by requesting a copy in writing from the Company Secretary)	The committee is responsible for: • overseeing the process for the selection, appointment and re-appointment of auditors; • reviewing the relationship with the auditors, including agreeing the list of non-audit work to be carried out by the auditors; • reviewing the company's financial statements and the representation of financial statements in the company's announcements and ensuring compliance with requirements; • keeping the company's systems of internal controls under review.	The committee is responsible for identifying and nominating, for board approval, candidates to fill board vacancies as and when they arise. The committee is also responsible for reviewing policy and making recommendations to the board in respect of: • the structure, size and composition of the board; • succession planning; • the balance of skills, knowledge and capabilities required by the board.	The committee is responsible for agreeing the broad policy and framework for the remuneration of the Chief Executive, the Chairman, the executive directors, members of the Group Executive and the Company Secretary. In addition the committee is responsible for the following, in respect of the people mentioned above: • the design of, and targets for, performance related pay schemes; • the design of, and the approval of awards under, share incentive plans. It is also responsible for the determination of total remuneration packages for the executive directors and other senior executives.
Summary of key issues dealt with during the year	The committee's main focus during the year was on: • internal controls; • auditors' independence; • approval of financial statements for the full and half year.	During the year the committee's main areas of activity were: • the selection of Alan Parker to be the new Chief Executive, following the retirement of David Thomas after the 2004 AGM; • the recommendation of Angie Risley for appointment to the board.	During the year the committee dealt with: • the major review of the company's remuneration policy, as described in the Remuneration Report on pages 40 to 42.

* Member of Audit Committee with recent and relevant financial experience

This report of the Remuneration Committee, which has been approved by the board, states Whitbread's remuneration policy and details the remuneration paid to directors for 2003/4. This Remuneration Report, together with the proposed changes to the Long Term Incentive Plan (LTIP), will be the subject of two shareholder resolutions to be proposed at the AGM.

Part 3 of Schedule 7a of the Companies Act 1985 requires that certain parts of the Remuneration Report are audited. Throughout this report those sections that have been audited are marked clearly as 'audited information' for the sake of clarity.

Shareholders should note that:

- the executive directors have agreed to reduce the notice periods of their contracts to twelve months;
- the Remuneration Committee has endorsed the policy that performance conditions applying to executive share options should not be subject to retesting;
- during 2003 the Remuneration Committee reviewed in depth the company's remuneration policy and has made a number of changes, described later in this report, to improve alignment of shareholders' and directors' interests.

An explanation of terms used in this report is given on page 42.

Remuneration Committee and advisers

The Remuneration Committee is chaired by Charles Gurassa, an independent non-executive director. The other members of the committee during the year were Sir John Banham, Chairman of Whitbread and Rod Kent, Prue Leith, David Turner and Lord Williamson, all of whom are independent non-executive directors. Sir John Banham has stepped down as a committee member, but can continue to make his personal and valuable experience available to the committee as an invited attendee.

The committee met nine times during the year and attendance details for individual directors can be found in the table on page 36.

The new terms of reference of the committee, which were adopted during the year, are summarised on page 39 and are available on the company's website at www.whitbread.co.uk. Copies may also be requested by writing to the Company Secretary.

The committee recommends to the board the specific overall remuneration packages for executive directors and other members of the Group Executive, and reviews the approach to remuneration for all other senior executives. During the year, all the committee's recommendations to the board were accepted.

The committee has appointed New Bridge Street Consultants LLP and Towers Perrin, who are independent remuneration consultants, to provide specialist advice. They provide no other types of services to the Whitbread group.

Slaughter and May and New Bridge Street Consultants LLP advise the company on the implementation of the committee's policy decisions. Angie Risley, group human resources director, is an internal adviser to the Remuneration Committee. The committee also receives advice from the Chairman, Chief Executive and Company Secretary as appropriate.

Remuneration policy

The company's policy for directors' remuneration for 2004/5 and subsequent financial years is that the overall package will be sufficiently competitive to attract, retain and motivate high calibre executives. They will be expected to have the skills, expertise and enthusiasm to achieve the group's objectives and to enhance shareholder value. Such remuneration packages will reflect their personal contribution and the company's overall success. A significant proportion of total remuneration is performance related.

The following comprise the components of remuneration of executive directors and other members of the Group Executive. Details of the company's policy on pensions can be found on page 43.

Base salary and benefits

Base salaries are reviewed annually against similar positions within UK listed leisure, hotel and retail companies of a similar market profile and against a pan-sectoral group of companies with a similar market capitalisation and turnover to the business for which the director is responsible. Before awarding any base salary increase to directors, careful consideration is given to trading circumstances across the whole group and to average salary increases for Whitbread employees as a whole. The policy is to pay market rates, but the committee acknowledges that flexibility is required in order to recruit or retain a limited number of key executives.

Life assurance and individual private health cover are core benefits provided to all executives. Non-core benefits, for which cash alternatives are available, are family health cover and a fully expensed company car. Limited discounts on company products are also provided in line with those given to all Whitbread employees.

Annual performance related pay

The following description of the committee's policy on incentive pay is subject to shareholders approving the changes to the LTIP as described in the Notice of Annual General Meeting 2004.

The policy objectives of Whitbread's revised incentive arrangements are:

(a) to provide a clear link between performance and reward, in order to motivate key executives;

(b) to place a greater emphasis on equity rewards, promoting alignment with shareholders;

(c) to promote retention by deferring a significant part of the rewards.

Annual performance is measured by reference to economic profit and personal performance.

Economic profit has many advantages including:

- for corporate centre employees, it helps to ensure that capital is efficiently utilised within the competing brands in Whitbread or returned to shareholders;
- for brand executives, it reminds them that they are part of a wider group and that profits earned by a brand have to take account of the cost of capital;
- retained profits and any future equity issues have to be efficiently utilised by the group.

Each year the board sets a series of economic profit targets for the group and each brand within the group. For executive directors with group-wide responsibility, the economic profit target will relate to the group as a whole, and for directors with divisional responsibility, a combination of group and divisional economic profit targets will be set. The economic profit targets are set according to the commercial strategy of the company at the start of the financial year under review.

At the end of the financial year, the economic profit results are calculated and the committee assesses each director against the pre-determined targets. Following this review, assuming targets are met, three different types of awards are made:

(a) an immediately payable cash sum;

(b) an award over Whitbread shares which will normally vest three years later provided that the director remains employed by the Whitbread group;

(c) an award over Whitbread shares made under the LTIP, which will normally vest three years after the date of grant provided that the individual remains an employee and a total shareholder return (TSR) performance target (described in more detail below) is satisfied.

The normal levels of cash, deferred equity and LTIP awards payable under the plan to executive directors at different levels of economic profit performance will be:

Below Threshold	Nil
Threshold	10% cash 20% deferred equity 25% LTIP award
Target	22.5% cash 50% deferred equity 62.5% LTIP award
Maximum	55% cash 100% deferred equity 125% LTIP award

The percentages in the table are expressed as a percentage of the directors' base salary. A straight-line will operate between the above levels of performance.

Threshold will be the minimum target at which rewards will be earned. Targeted level of performance will be consistent with budgeted performance, and maximum will be significantly beyond budget.

It should be noted that unlike the reported year, in the revised year going forward the directors' annual cash performance-related payment and deferred equity award will be capped. Further, if budgeted performance is achieved, the cost to Whitbread will be no greater than the company's existing incentive arrangements. Cash payments for the target performance also remain the same.

In addition, a maximum of 20% of salary cash bonus will be payable for personal performance. The personal objectives are based on a 'balanced scorecard' approach, including such elements as increasing sales, reducing operating costs, development of people, maximising customer satisfaction, and other individual objectives where these are over and above day-to-day job responsibility. These targets are set at the beginning of each financial year and, for directors, are reviewed by the committee after the year end.

LTIP awards

Vesting of shares subject to an LTIP award will depend on continued employment and the meeting of a TSR performance target over three years. The Remuneration Committee favours a TSR performance target because it more closely aligns the interests of executives to those of shareholders.

Following the committee's decision in October 2002, the comparator group shall comprise the constituents of the FTSE Leisure and Hotels sector index, which is regarded as the most appropriate given the business mix and strategy of the company, at the time of grant. Performance will be measured over the three financial years following the financial year for which the bonus is declared. Averaging will take place over the three month period before the start and end of the performance period to reduce the impact of short term share price fluctuations.

The next award under the LTIP will be made in May 2004 on the same terms as awards in previous years.

The vesting schedule for any grants made after June 2004 will be:

Position at which the company is ranked	Vesting Schedule
Upper quartile and above	Full vesting
Between median and upper quartile	Pro rata on a straight-line between quarter and full vesting
Median	Quarter vests*
Below median	None

*This will be reduced from 50% vesting at median.

The TSR performance of the company and the other members of the comparator group will be calculated by an independent third party on behalf of the committee using reliable financial information.

Share options

If shareholders approve the amendments to the LTIP at the 2004 AGM, the previous policy of making annual grants of options will be discontinued from the 2004 AGM. Options may be granted in exceptional circumstances, for example, on a senior recruitment or following an acquisition. An earnings per share based performance condition will apply to any such options, and to the extent that the performance condition is not satisfied after three years, the option shall lapse, i.e. no opportunity to retest performance will be allowed.

This will be the case in respect of options granted in 2004, and for which the performance target will require earnings per share growth of RPI plus 12% over the three year performance period. The committee remains of the view that earnings per share is the appropriate financial test for market value options because the option has an inherent share price growth target.

Chairman's agreement

Sir John Banham entered into a letter of agreement with the company setting out the terms of his appointment as chairman of Whitbread. His contract, which commenced on 21 June 2000, is terminable on one year's notice. The contract requires that any salary increase will not exceed the average increase generally paid to the UK employees of the Whitbread group.

Directors' service contracts

The executive directors have agreed to reduce the notice periods of their contracts to twelve months. The employment of David Thomas will end when he retires from the company immediately following the company's AGM in 2004. By mutual agreement Bill Shannon will also be stepping down from the board on 15 June 2004 and will be leaving the company on 30 June 2004. This follows a review (in which Bill was involved) of board responsibilities. The payment he will receive for the early termination of his service agreement will be £587,300. In addition the company will pay a fixed sum of £162,000 to enhance his pension. These sums are based on 12 months' salary, benefits and pension entitlement.

In the event that the employment of any of the other executive directors with the company is terminated without notice, the contracts provide for payment of a specific sum for breach of contract comprising one times each of annual salary, estimated bonus, car benefit and the cost of private medical insurance, together with the cost of 12 months' life assurance. In addition, pension entitlement is enhanced by crediting 12 months' additional service. Commencement dates for contracts (as amended) were as follows:
Stewart Miller (1 May 1990)
Alan Parker (1 September 1992)
David Richardson (1 November 1993)
Angie Risley (1 May 1990)
Bill Shannon (1 December 1993)
David Thomas (31 March 1993).

The Remuneration Committee has agreed that new appointments to the board would be made on the basis of a service agreement with one year's notice.

The committee reserves the right, in exceptional circumstances, to apply greater flexibility for external appointments to the board.

Non-executive directors

None of the non-executive directors has a service contract. Letters of appointment are available for inspection at the company's registered office and the dates of those letters are shown below:

Charles Gurassa – 26 July 2000
Prue Leith – 14 September 1995
Rod Kent – 30 August 2002
David Turner – 3 January 2001
Lord Williamson – 11 May 1998

Prue Leith and Lord Williamson are due to retire by rotation at the 2005 AGM and Rod Kent, David Turner and Charles Gurassa are due to retire by rotation at the 2006 AGM. Under the company's articles of association all directors retiring by rotation are eligible to offer themselves for re-election. However, as stated earlier in this report, Prue Leith has indicated that she does not intend to do so.

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 adversely affect 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.

During the year £36,200 was donated to the Whitbread Charitable Trust.

Explanation of terms

TSR
Total shareholder return is the difference between the share price at the start of a performance period and that at the end of a period plus the dividends paid during the period

EPS
Earnings per share

Economic profit
Operating profit net of a capital charge

Directors' remuneration for the year to 4 March 2004 (audited information)

The table below shows a breakdown of the various elements of pay received / receivable by the directors in respect of the period from 2 March 2003 to 4 March 2004

	Basic Salary £	Taxable Benefits £	Performance related payments[1] £	Total excluding pensions 2003/4 £	Total excluding pensions 2002/3 £
Chairman					
Sir John Banham	195,414	2,500	–	**197,914**	192,664
Executive Directors					
Stewart Miller	290,890	18,909	108,042	**417,841**	443,085
Alan Parker	299,525	23,368	138,518	**461,411**	378,117
David Richardson	339,095	13,001	299,188	**651,284**	498,296
Bill Shannon	344,694	29,169	775,825	**1,149,688**	594,958
David Thomas	572,918	17,891	810,241	**1,401,050**	849,075
Non-Executive Directors					
Charles Gurassa [2]	34,167	–	–	**34,167**	30,000
Rod Kent [3]	29,500	–	–	**29,500**	13,500 [4]
Prue Leith	29,500	–	–	**29,500**	27,000
David Turner [5]	34,167	–	–	**34,167**	28,500
Lord Williamson	29,500	–	–	**29,500**	27,000

Total emoluments for the year were £4,436,022. The total for 2002/3 was £3,092,195 (this figure includes £10,000 which was paid to John Padovan, a director for part of the 2002/3 financial year).

(1) As explained in the Annual Report and Accounts 2002/3 the annual incentive arrangements which were put in place for senior executives for the 2003/4 financial year included a cash element and, if certain targets were met, a deferred equity element. The performance related payments figures in the table include both of these elements.
(2) Includes fees as chairman of the Remuneration Committee.
(3) In addition to these fees Rod Kent received £12,500 as chairman of Whitbread Pension Trustees Limited.
(4) Fees for part-year.
(5) Includes fees as chairman of the Audit Committee.

Executive directors' pension schemes

All of the present executive directors are entitled to a pension from the Whitbread Group Pension Fund, which is a defined benefit pension scheme.

On retirement from service at the normal pension age of 60 the directors will receive an annual pension of two-thirds of their last 12 months' basic salary, subject to Inland Revenue limits. As a result of his earnings being restricted by the earnings cap, Alan Parker is also a member of the Whitbread Unapproved Pension Scheme, an unfunded, unapproved pension scheme. His total pension from the Whitbread Group Pension Fund and the Whitbread Unapproved Pension Scheme combined on retirement at age 60 will be two-thirds of his last 12 months' basic salary. A director retiring early between the ages of 50 and 60 may draw his or her accrued pension without any actuarial reduction.

In the event of death in service before normal pension age a lump sum benefit of four times basic salary is paid, together with a spouse's pension and children's pensions.

On death after retirement, the director's spouse will receive a pension equal to 60% of the director's pension. In addition, if death occurs within five years after retirement, a lump sum equal to the unpaid balance of five years' pension will be payable.

All pensions are increased annually in line with the RPI up to a maximum of 5%.

The final salary section of the pension scheme was closed to new entrants on 31 December 2001. All new recruits after that date are offered participation in the defined contribution section of the scheme. For executive directors, the company will contribute at the rate of 25% of the director's basic salary. To the extent that basic salary exceeds the earnings cap, the executive director has the option of an equivalent non-consolidated salary supplement as an alternative.

In the event of death in service, a lump sum benefit of ten times basic salary is payable, although no additional spouses' and children's pensions are paid. Where required by law, part of this lump sum is used to purchase pensions for dependants.

Executive directors do not contribute to the above pension schemes.

None of the executive directors are accruing benefits under any other company-sponsored pension arrangements.

No elements of executive directors' pay packages are pensionable other than basic salary.

Non-executive directors are not entitled to participate in any of these pension arrangements.

The Remuneration Committee is aware of the Treasury's proposals to reform pension provision and will be reviewing the company's pension provision during 2004/5.

Pension entitlements (audited information)

The pension entitlements of the executive directors are as follows:

	Accumulated accrued benefits 4 March 2004 £	Increase in accrued benefits during the year £	Increase, before inflation, in accrued benefits during the year £	Transfer value * of increase, before inflation, less any directors' contributions £
Stewart Miller	**138,003**	14,650	11,566	122,026
Alan Parker	**113,972**	19,047	16,674	251,138
David Richardson	**165,377**	20,088	16,456	337,334
Bill Shannon	**192,605**	17,602	13,227	264,668
David Thomas	**377,074**	41,578	33,191	600,652

The transfer value* of each director's accrued benefits at the end of the financial year is as follows:

	4 March 2004 £	1 March 2003 £	Movement less any directors' contributions £
Stewart Miller	**1,458,650**	1,235,695	222,955
Alan Parker	**1,717,355**	1,349,188	368,167
David Richardson	**3,390,466**	2,971,221	419,245
Bill Shannon	**3,853,762**	3,501,135	352,627
David Thomas	**6,820,822**	6,076,418	744,404

* transfer values represent a liability of the pension fund, not a sum paid or due to the individual

In addition to the above benefit, Alan Parker has an entitlement in respect of a transfer value received from a previous employer's pension scheme. The accrued entitlement at 4 March 2004 was £46,658 per annum (£42,566 per annum at 1 March 2003) and the transfer value was £700,048 (£604,500 at 1 March 2003).

A pension of £4,591 (2002/3 – £10,864) was paid to a former director in excess of his accrued pension entitlement until his death in July 2003; a pension of £3,872 was then paid to his widow.

Directors' share interests (audited information)

The interests of directors in the ordinary shares of 50 pence each in the company are shown below. All holdings are beneficial and include shares held in trust under the Whitbread Share Ownership Scheme.

	Held at 4/3/2004	Held at 2/3/2003
Sir John Banham	**28,500**	28,500
Charles Gurassa	**2,798**	2,798
Rod Kent	**3,000**	3,000
Prue Leith	**2,706**	3,706
Stewart Miller	**33,003**	31,915
Alan Parker	**30,028**	17,028
David Richardson	**29,557**	17,068
Bill Shannon	**28,180**	26,117
David Thomas	**66,245**	62,096
David Turner	**2,000**	2,000
Lord Williamson	**1,500**	900

Share options (audited information)

Executive directors and other senior executives have been granted options over shares in the company under two executive share option schemes, one of which has been approved by the Inland Revenue. The share option schemes are designed to incentivise executives to achieve stretch performance targets.

Under the schemes a fixed number of options were granted to directors and senior executives annually in line with market practice. Executive options are granted at the average market price on the five dealing days preceeding the date of grant.

Executives may not, under normal circumstances, exercise options earlier than three years nor more than ten years after the grant. Options granted since 1996 were performance-related. Options granted between 1996 and 2000 cannot be exercised unless either adjusted EPS growth exceeds the Retail Prices Index (RPI) + 2% per annum over any three consecutive years during the life of the option or TSR exceeds the average of the FTSE 100 index over the same period. In order to align these objectives with shareholder value, the Remuneration Committee specified that options granted since June 2000 may only be exercised if the growth in the company's adjusted earnings per share has exceeded the RPI by more than 4% per annum measured over any three consecutive years out of the ten year performance period. See Share options on page 41 for the current policy and performance criteria. Executive directors may also participate in the company's Savings-related Share Option Scheme which is open to all employees on the same terms.

At 4 March 2004 the directors held the following share options under the executive share option schemes and the Savings-related Share Option Scheme. The earliest date on which any of the executive options could have been exercised was June 1997, with the latest being June 2013. Savings-related share options have a six-month exercise period.

Stewart Miller	Number	Date of grant	Exercise Price	Exercise Date	Last Exercise Date
Executive Share Option Schemes	1,700	7 June 1995	594.2p	June-98	June-05
	51,900	8 July 1996	727.8p	July-99	July-06
	16,300	6 June 1997	778.5p	June-00	June-07
	5,400	5 June 1998	1027.0p	June-01	June-08
	1,600	16 June 1999	1101.0p	June-02	June-09
	50,000	8 June 2000	542.4p	June-03	June-10
	50,000	26 July 2001	661.4p	July-04	July-11
	50,000	10 June 2002	641.0p	June-05	June-12
	50,000	9 June 2003	642.5p	June-06	June-13
Savings-related Share Option Scheme	1,350	29 November 1999	549.7p	February-05	July-05
	614	4 December 2001	431.0p	February-07	July-07
	1,489	3 December 2002	441.2p	February-08	July-08
Total number of shares under option	**280,353**	**(231,433 at 2 March 2003)**			

Alan Parker	Number	Date of grant	Exercise Price	Exercise Date	Last Exercise Date
Executive Share Option Schemes	61,300	19 June 1996	739.2p	June-99	June-06
	5,000	6 June 1997	778.5p	June-00	June-07
	25,300	5 June 1998	1027.0p	June-01	June-08
	4,600	16 June 1999	1101.0p	June-02	June-09
	50,000	8 June 2000	542.4p	June-03	June-10
	50,000	26 July 2001	661.4p	July-04	July-11
	50,000	10 June 2002	641.0p	June-05	June-12
	50,000	9 June 2003	642.5p	June-06	June-13
Savings-related Share Option Scheme	3,839	4 December 2001	431.0p	February-07	July-07
Total number of shares under option	**300,039**	**(250,039 at 2 March 2003)**			

David Richardson	Number	Date of grant	Exercise Price	Exercise Date	Last Exercise Date
Executive Share Option Schemes	8,400	7 June 1995	594.2p	June-98	June-05
	21,300	8 July 1996	727.8p	July-99	July-06
	19,700	6 June 1997	778.5p	June-00	June-07
	10,900	5 June 1998	1027.0p	June-01	June-08
	2,200	16 June 1999	1101.0p	June-02	June-09
	50,000	8 June 2000	542.4p	June-03	June-10
	50,000	26 July 2001	661.4p	July-04	July-11
	50,000	10 June 2002	641.0p	June-05	June-12
	50,000	9 June 2003	642.5p	June-06	June-13
Savings-related Share Option Scheme	2,451	4 December 2000	413.0p	February-06	July-06
	881	4 December 2001	431.0p	February-05	July-05
Total number of shares under option	**265,832**	**(276,032 at 2 March 2003)**			

Bill Shannon	Number	Date of grant	Exercise Price	Exercise Date	Last Exercise Date
Executive Share Option Schemes	30,200	7 June 1995	594.2p	June-98	June-05
	27,200	8 July 1996	727.8p	July-99	July-06
	40,800	6 June 1997	778.5p	June-00	June-07
	33,500	5 June 1998	1027.0p	June-01	June-08
	8,500	16 June 1999	1101.0p	June-02	June-09
	50,000	8 June 2000	542.4p	June-03	June-10
	50,000	26 July 2001	661.4p	July-04	July-11
	50,000	10 June 2002	641.0p	June-05	June-12
	50,000	9 June 2003	642.5p	June-06	June-13
Savings-related Share Option Scheme	408	4 December 2000	413.0p	February-06	July-06
	484	4 December 2001	431.0p	February-05	July-05
	1,456	3 December 2002	441.2p	February-06	July-06
Total number of shares under option	**342,548**	**(294,196 at 2/3/03)**			

David Thomas	Number	Date of grant	Exercise Price	Exercise Date	Last Exercise Date
Executive Share Option Schemes	13,800	20 June 1994	537.6p	June-97	June-04
	13,400	7 June 1995	594.2p	June-98	June-05
	15,000	8 July 1996	727.8p	July-99	July-06
	64,200	6 June 1997	778.5p	June-00	June-07
	49,000	5 June 1998	1027.0p	June-01	June-08
	5,000	16 June 1999	1101.0p	June-02	June-09
	80,000	8 June 2000	542.4p	June-03	June-10
	80,000	26 July 2001	661.4p	July-04	July-11
	80,000	10 June 2002	641.0p	June-05	June-12
Savings-related Share Option Scheme	1,510	2 December 2003	610.7p	February-07	July-07
Total number of shares under option	**401,910**	**(440,245 at 2/3/03)**			

Options exercised (audited information)

Executive Share Option Schemes

Name	Date of Grant	Number Granted	Option Price	Exercise Period	Exercise Date	Number Exercised	Price on Exercise [1]	Gain (£)
David Thomas	29/6/93	37,500	498.8p	June 1996 to June 2003	18/6/03	37,500	675.5p	66,263
David Richardson	29/6/93	19,900	498.8p	June 1996 to June 2003	6/5/03	13,900	639.0p	19,488
	29/6/93	19,900	498.8p	June 1996 to June 2003	4/6/03	6,000	643.5p	8,682*
	20/6/94	40,300	537.6p	June 1997 to June 2004	29/10/03	33,838	740.0p	68,488
	20/6/94	40,300	537.6p	June 1997 to June 2004	29/10/03	6,462	740.0p	13,079*

Savings-related Share Option Scheme

Name	Date of Grant	Number Granted	Option Price	Exercise Period	Exercise Date	Number Exercised	Price on Exercise [1]	Gain (£)
Stewart Miller	8/12/97	1,080	638.6p	February 2003 to July 2003	31/7/03	1,080	730.0p	987*
Bill Shannon	8/12/97	1,296	638.6p	February 2003 to July 2003	31/7/03	1,296	730.0p	1,185*
David Thomas	4/12/00	2,345	413.0p	February 2004 to July 2004	2/2/04	2,345	739.5p	7,656*

[1] The price on exercise is either the actual price attained, where the shares were sold on exercise, or the mid-market price on the day of exercise where the shares were retained.
* The director retained the shares on exercise, but had he sold the shares this is the gain that he would have made.
Bill Shannon had an option under the Savings-related Share Option Scheme over 352 shares which lapsed on 31 July 2003.

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

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

	Year of Award	balance at 2/3/03	Awarded	Lapsed	Vested [1]	balance at 4/3/04	Performance Period Began	Performance Period Concludes	Market Price at Award	Date Award Vested [2]	Market Price at Vesting [3]	Monetary Value [4] of Vested Award (£)
Stewart Miller	2001	19,700	–	–	19,700	–	1/3/01	28/2/04	634.5p	1/3/04	741.0p	145,977
	2002	20,634	–	–	–	20,634	1/3/02	28/2/05	636.1p	–	–	–
	2003	–	27,094	–	–	27,094	1/3/03	28/2/06	513.5p	–	–	–
		40,334	27,094	–	19,700	47,728						145,977
Alan Parker	2001	19,700	–	–	19,700	–	1/3/01	28/2/04	634.5p	1/3/04	741.0p	145,977
	2002	20,634	–	–	–	20,634	1/3/02	28/2/05	636.1p	–	–	–
	2003	–	28,117	–	–	28,117	1/3/03	28/2/06	513.5p	–	–	–
		40,334	28,117	–	19,700	48,751						145,977
David Richardson	2001	23,641	–	–	23,641	–	1/3/01	28/2/04	634.5p	1/3/04	741.0p	175,180
	2002	23,581	–	–	–	23,581	1/3/02	28/2/05	636.1p	–	–	–
	2003	–	31,402	–	–	31,402	1/3/03	28/2/06	513.5p	–	–	–
		47,222	31,402	–	23,641	54,983						175,180
Bill Shannon	2001	24,232	–	–	24,232	–	1/3/01	28/2/04	634.5p	1/3/04	741.0p	179,559
	2002	25,017	–	–	–	25,017	1/3/02	28/2/05	636.1p	–	–	–
	2003	–	32,540	–	–	32,540	1/3/03	28/2/06	513.5p	–	–	–
		49,249	32,540	–	24,232	57,557						179,559
David Thomas	2001	39,402	–	–	39,402	–	1/3/01	28/2/04	634.5p	1/3/04	741.0p	291,969
	2002	40,679	–	–	–	40,679	1/3/02	28/2/05	636.1p	–	–	–
	2003	–	53,554	–	–	53,554	1/3/03	28/2/06	513.5p	–	–	–
		80,081	53,554	–	39,402	94,233						291,969

Notes

1 Whitbread's ranking against the comparator group for the 2001 LTIP award generated a 100% vesting.
2 The shares awarded under the 2001 LTIP vested on 1 March 2004, at which point the directors' nil-cost options over the shares became exercisable, subject to the end of the closed period. These options may now be exercised at any time before 1 March 2011.
3 The market price at vesting is the mid-market price on 1 March 2004.
4 The monetary value of the vested award is the value at the date of vesting. This may be different from the value at the time the director chooses to exercise his nil-cost option. Details of the value of the award on exercise will be reported in the year of exercise.

The information below refers to any awards made up to the date of the 2004 AGM. Please refer to page 41 for details of the Plan after that date. Participation in the Plan is available to executive directors and a small number of other senior executives.

The Plan aligns the long-term interests of participants with those of the company and its shareholders and is designed to deliver superior performance from participants and to improve shareholder value.

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 preceeding the start of the performance period. The measure of performance is TSR.

Awards vest in part if the company performs at median, increasing to full vesting for top quartile performance relative to the comparator group of companies. This means that at the 50th percentile, 50% of the award will be paid and at the 75th percentile, 100% of the award will be paid, with a straight line operating in between.

For the 2001 award the comparator group of companies was as follows: BAA, Boots, British Airways, Cadbury Schweppes, Compass, Dixons, Gallaher, Hilton Group, Imperial Tobacco, J Sainsbury, Kingfisher, Marks & Spencer, Rank, Reckitt Benckiser, Safeway, Scottish & Newcastle, Tate & Lyle, Tesco, Uniq and WHSmith. Six Continents were originally part of this group but their shares are no longer traded. For the 2002 award the comparator group of companies consisted of: Allied Domecq, BAA, Boots, Cadbury Schweppes, Compass, Dixons, Gallaher, Hilton Group, Imperial Tobacco, J Sainsbury, Marks & Spencer, Rank, Reckitt Benckiser, Scottish & Newcastle, Tate & Lyle, Tesco, Uniq and WHSmith. Albert Fisher, Arcadia and Six Continents were originally part of this group but their shares are no longer traded. The comparator group for the 2003 award was the constituents of the FTSE All-Share Hotels & Leisure index as at 1 March 2003.

Employee Share Ownership Plan Trust (ESOP) (audited information)

The company funds an ESOP to enable it to acquire and hold shares for the LTIP and executive share option schemes. The ESOP currently holds 1,415,307 shares; the executive directors each have a technical interest in these shares as potential beneficiaries of the trust. All dividends on shares in the ESOP are waived by the Trustee.

During the period from 4 March 2004 to 4 May 2004 no director has exercised his option to call for the transfer of his shares out of the ESOP.

Share price information

The mid-market price of Whitbread ordinary shares on 4 March 2004 was 740p (1 March 2003 – 521p). The highest and lowest price paid between these dates was 782.5p and 515p respectively.

Changes since 4 March 2004 (audited information)

As a result of the reinvestment of income arising from personal equity plans, Stewart Miller acquired 2 shares, David Richardson acquired 7 shares , and David Thomas acquired 34 shares.

There have been no other changes in directors' interests in ordinary shares since 4 March 2004.

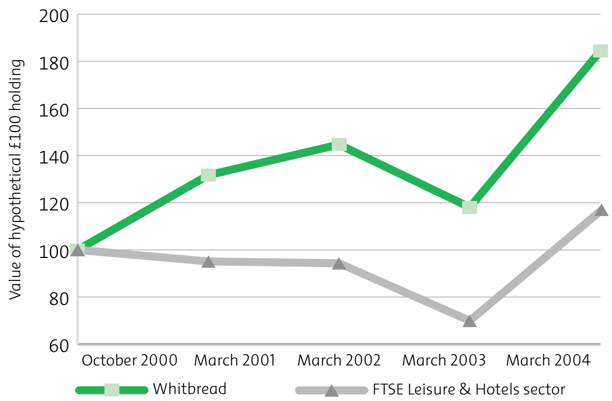
No director had an interest at any time during the year in the secured or unsecured loan stock or the loan notes of the company, or in the shares or loan stock of any subsidiary company.

Performance Graphs

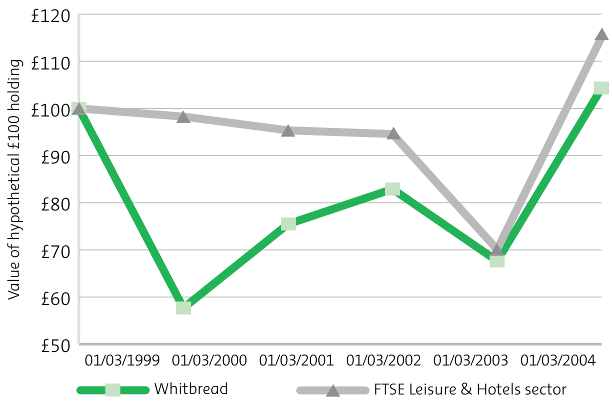
The graphs below show the percentage change in TSR (with dividends reinvested) of a holding of the company's shares against the corresponding change in a hypothetical holding of shares in the FTSE Leisure & Hotels sector index, for each of the last five financial years ending 4 March 2004 and for the period October 2000 (being the date of the decision to demerge Pubs & Bars) to March 2004 respectively.

The FTSE Leisure & Hotels sector index has been chosen because from March 2003 it has been the comparator group for the measurement of the performance of the long term incentive plan and it is deemed to represent an appropriate market index in which the company is a constituent member.

Historical TSR Performance
Growth in the value of a hypothetical £100 holding since October 2000 FTSE Leisure & Hotels sector comparison based on 30 trading day average values



Historical TSR Performance
Growth in the value of a hypothetical £100 holding over five years FTSE Leisure & Hotels sector comparison based on 30 trading day average values



On behalf of the board

C M Gurassa
Chairman of the Remuneration Committee

4 May 2004

Statement of directors' responsibilities

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 50 to 80, 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.

Independent auditors' report to the members of Whitbread PLC

We have audited the group's financial statements for the year ended 4 March 2004 which comprise the Accounting policies, Group profit and loss account, Group statement of total recognised gains and losses, Group note of historical cost profits and losses, Balance sheets, Group cash flow statement and the related notes 1 to 36. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, 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 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 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the chairman's statement, chief executive's review, finance director's review, operational review, unaudited part of the Directors' Remuneration Report and the Directors' report We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements and the part of the Directors' Remuneration Report to be audited 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 financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

– the financial statements give a true and fair view of the state of affairs of the company and of the group as at 4 March 2004 and of the profit of the group for the year then ended; and

– the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London
4 May 2004

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. Apart from the acquisition of Whitbread Group PLC by Whitbread PLC in 2000/1, which was accounted for using merger accounting, 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. Goodwill written off against reserves in previous years has not been reinstated.

IT software is amortised, on a straight line basis over five years.

The carrying values of intangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that their carrying value may not be recoverable.

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 14. 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.

Administration and logistics 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.

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that their 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. Leases

Rental payments in respect of operating leases are charged against operating profit on a straight line basis over the period of the lease. Lease incentives are charged to operating profit on a straight line basis over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate.

J. Pension funding

Pension costs are charged to the profit and loss account over the average expected service life of current employees. Actuarial surpluses and deficits 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.

K. Tax

Deferred tax is recognised in respect of all timing differences that have originated but not been reversed by the balance sheet date. Deferred tax is not recognised when an asset is sold if it is more likely than not that the taxable gain will be rolled over. Deferred tax assets are recognised to the extent that they are regarded as recoverable. Provisions for deferred tax are not discounted. Deferred tax assets and liabilities are calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date.

L. Comparative amounts

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

Group profit and loss account **Year ended 4 March 2004**

		2003/4			2002/3 (restated)		
	Notes	Before exceptional items £m	Exceptional items (note 4) £m	Total £m	Before exceptional items £m	Exceptional items (note 4) £m	Total £m
Turnover							
Group and share of joint ventures		1,977.4	–	1,977.4	1,965.1	–	1,965.1
Less share of joint ventures' turnover		(189.2)	–	(189.2)	(171.0)	–	(171.0)
Group turnover – continuing operations	2	1,788.2	–	1,788.2	1,794.1	–	1,794.1
Net operating expenses	3	(1,536.2)	(15.5)	(1,551.7)	(1,552.4)	(5.0)	(1,557.4)
Group operating profit	3	252.0	(15.5)	236.5	241.7	(5.0)	236.7
Share of operating profit in:							
Joint ventures		18.6	–	18.6	15.1	–	15.1
Associates		22.4	–	22.4	17.8	–	17.8
Operating profit of the group, joint ventures and associates – continuing operations	2	293.0	(15.5)	277.5	274.6	(5.0)	269.6
Non-operating items – continuing operations							
Net profit/(loss) on disposal of fixed assets							
Group excluding joint ventures and associates		–	(10.8)	(10.8)	–	0.8	0.8
Joint ventures		–	0.4	0.4	–	0.5	0.5
Associates		–	0.1	0.1	–	0.3	0.3
Net loss on the disposal of businesses		–	–	–	–	(7.8)	(7.8)
Profit/(loss) before interest		293.0	(25.8)	267.2	274.6	(11.2)	263.4
Interest	8	(52.2)	(3.3)	(55.5)	(61.0)	–	(61.0)
Profit/(loss) before tax		240.8	(29.1)	211.7	213.6	(11.2)	202.4
Tax	9	(77.1)	30.2	(46.9)	(66.4)	16.4	(50.0)
Profit after tax		163.7	1.1	164.8	147.2	5.2	152.4
Equity minority interests		(0.1)	–	(0.1)	(0.2)	–	(0.2)
Non-equity minority interests		(0.2)	–	(0.2)	(0.2)	–	(0.2)
Profit earned for ordinary shareholders	10	163.4	1.1	164.5	146.8	5.2	152.0
Ordinary dividends	11	(65.5)	–	(65.5)	(58.7)	–	(58.7)
Retained profit for the year	26	97.9	1.1	99.0	88.1	5.2	93.3
Earnings per share (pence)	12						
Basic				55.74			51.64
Adjusted basic		58.22			52.72		
Diluted				55.39			51.46
Adjusted diluted		57.85			52.54		

Group statement of total recognised gains and losses **Year ended 4 March 2004**

	2003/4 £m	2002/3 (restated) £m
Profit earned for ordinary shareholders		
Group excluding joint ventures and associates	137.1	139.0
Joint ventures	12.1	6.6
Associates	15.3	6.4
Group including joint ventures and associates	164.5	152.0
Currency translation differences on net foreign investment	(0.7)	0.2
	163.8	152.2
Prior year adjustment arising from the adoption of UITF abstracts 17 (as amended) and 38 (note 1)	(6.7)	
Total gains and losses recognised since previous year end	157.1	152.2

Group note of historical cost profits and losses **Year ended 4 March 2004**

	2003/4 £m	2002/3 (restated) £m
Reported profit before tax	211.7	202.4
Realisation of revaluation gains	9.2	4.1
Difference between the historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	1.0	1.0
Historical cost profit before tax	221.9	207.5
Historical cost profit for the year retained after tax, minority interests and dividends	109.2	98.4

Balance sheets **4 March 2004**

	Notes	Group 2004 £m	Group 2003 (restated) £m	Company 2004 £m	Company 2003 £m
Fixed assets					
Intangible assets	13	147.6	141.5	–	–
Tangible assets	14	2,989.7	3,045.1	–	–
Investments					
In subsidiaries	15	–	–	1,737.8	1,793.0
In joint ventures	16				
Share of joint ventures' gross assets		90.1	78.1	–	–
Share of joint ventures' gross liabilities		(47.2)	(37.7)	–	–
Loans to joint ventures		1.8	1.8	–	–
		44.7	42.2	–	–
In associates	17	65.3	56.7	–	–
Other investments	18	3.7	0.3	–	–
		3,251.0	3,285.8	1,737.8	1,793.0
Current assets and liabilities					
Stocks	19	24.4	23.9	–	–
Debtors – amounts falling due within one year	20	105.2	95.2	0.6	–
Debtors – amounts falling due after more than one year	20	56.5	35.9	–	–
Cash at bank and in hand		68.8	75.4	–	–
		254.9	230.4	0.6	–
Creditors – amounts falling due within one year	21	(420.2)	(474.4)	(47.8)	(43.1)
Net current liabilities		(165.3)	(244.0)	(47.2)	(43.1)
Total assets less current liabilities		3,085.7	3,041.8	1,690.6	1,749.9
Creditors – amounts falling due after more than one year					
Loan capital	22	(807.5)	(879.8)	–	–
Provisions for liabilities and charges	24	(179.8)	(178.1)	(5.0)	(5.0)
		2,098.4	1,983.9	1,685.6	1,744.9
Capital and reserves					
Called up share capital	25	148.7	148.0	148.7	148.0
Share premium account	25	13.5	7.3	13.5	7.3
Revaluation reserve	26	124.5	134.5	–	–
Other reserves	26	(1,816.2)	(1,825.4)	–	–
Profit and loss account	26	3,621.1	3,512.8	1,523.4	1,589.6
Shareholders' funds	27	2,091.6	1,977.2	1,685.6	1,744.9
Equity minority interests		3.7	3.6	–	–
Non-equity minority interests		3.1	3.1	–	–
		2,098.4	1,983.9	1,685.6	1,744.9

D M Thomas
Director

D H Richardson
Director

4 May 2004

	Notes	2003/4 £m	2003/4 £m	2002/3 £m	2002/3 £m
Cash flow from operating activities	28		**382.9**		355.2
Dividends received					
Joint ventures			**9.5**		–
Associates			**11.9**		13.3
Returns on investments and servicing of finance					
Interest received		**1.5**		1.2	
Interest paid		**(57.3)**		(64.0)	
Debt issue costs		**–**		(0.6)	
Net cash outflow from returns on investments and servicing of finance			**(55.8)**		(63.4)
Tax					
UK Corporation Tax paid			**(28.0)**		(49.6)
Capital expenditure and financial investment					
Property and plant purchased		**(209.0)**		(218.3)	
Investments purchased and loans advanced		**(5.3)**		(0.9)	
Property and plant sold		**112.3**		29.4	
Investments sold and loans realised		**–**		4.1	
Net cash outflow from capital expenditure and financial investment			**(102.0)**		(185.7)
Acquisitions and disposals					
Businesses acquired	29	**(20.6)**		–	
Businesses sold		**–**		23.1	
Net cash inflow/(outflow) from acquisitions and disposals			**(20.6)**		23.1
Equity dividends paid			**(60.4)**		(53.9)
Net cash inflow before use of liquid resources and financing			**137.5**		39.0
Management of liquid resources					
Net movement on short term securities and bank deposits	30,31		**5.3**		3.9
Financing					
Minority dividends		**(0.2)**		(0.2)	
Issue of shares		**6.9**		1.3	
Net movement on short term bank borrowings	30,31	**7.7**		(3.3)	
Loan capital issued	30,31	**22.7**		78.3	
Loan capital repaid*	30,31	**(174.0)**		(109.3)	
Net cash outflow from financing			**(136.9)**		(33.2)
Increase in cash	30,31		**5.9**		9.7

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

1 Changes to accounting policies

The Urgent Issues Task Force abstracts 17 – as amended (Employee share schemes) and 38 (Accounting for ESOP trusts) have been adopted in the current year. The comparatives have been restated to comply with these abstracts. Operating profit has been reduced by £1.2m (2002/3 – £0.4m) as a consequence of changes in the basis of calculating the charges to the profit and loss account and the timing of their recognition. Other investments and reserves have been reduced by £6.7m (2003 – £6.7m) as a result of these changes and the requirement to deduct the cost of the Whitbread shares held to satisfy share based payments from reserves. The company has taken advantage of the exemption in UITF 17 – as amended and has not applied the abstract to Inland Revenue approved SAYE option schemes.

The analysis in the profit and loss detail in note 3 has been adjusted to reflect the current profile of the group's businesses, which are predominantly retail businesses. The major change is that costs of operating outlets are now classified as distribution costs, whereas previously they were classified as cost of sales. Comparative figures have been restated accordingly. The effect on the 2002/3 numbers has been to: reduce cost of sales by £814.3m; increase distribution to customers by £834.1m; and to reduce administration and other costs by £19.8m. There is no effect on group operating profit.

Although the third stage of the FRS 17 (Retirement Benefits) transitional arrangements has been adopted there have been no changes to the reported figures which continue to be prepared on the basis of SSAP 24. The disclosures required under this stage of the transitional arrangements are included in note 7 to the accounts.

2 Segmental analysis of turnover, profit and net assets

Year ended 4 March 2004	Turnover £m	EBITDA† £m	Operating profit £m	Net assets £m
By business segment				
Marriott brands	390.9	107.0	63.5#	1,157.8
Travel Inn	229.8	93.0	74.0	544.8
Total hotels	620.7	200.0	137.5	1,702.6
Pub Restaurants	590.4	113.2	84.1	733.5
High Street Restaurants – retained	453.3	42.7	28.5	112.8
Total restaurants	1,043.7	155.9	112.6	846.3
David Lloyd Leisure	201.8	69.5	48.7#	515.0
Developing business	–	(1.3)	(1.3)	(0.3)
Total sports, health and fitness	201.8	68.2	47.4	514.7
	1,866.2	424.1	297.5	3,063.6
Beer and Other Drinks	10.1	21.5	21.5	55.1
Inter-segment turnover (see note below)	(2.8)			
Central Costs	103.9	(24.7)	(26.0)	(227.7)
Exceptional items (note 4)		–	(15.5)	
Group including joint ventures and associates	1,977.4	420.9	277.5	2,891.0
Share of joint ventures	(189.2)	(18.6)	(18.6)	(44.7)
Share of associates		(22.4)	(22.4)	(65.3)
Group excluding joint ventures and associates	1,788.2	379.9	236.5	2,781.0
By geographical segment				
United Kingdom	1,898.8	413.6	274.0	2,819.1
Rest of the world	78.6	7.3	3.5	71.9
Group including joint ventures and associates	1,977.4	420.9	277.5	2,891.0

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

Year ended 1 March 2003 (restated)	Turnover £m	EBITDA† £m	Operating profit £m	Net assets £m
By business segment				
Marriott brands	391.9	113.1	71.6#	1,225.2
Travel Inn	204.3	83.9	66.7	529.4
Total hotels	596.2	197.0	138.3	1,754.6
Pub Restaurants	582.9	106.4	76.6	771.0
High Street Restaurants – retained	418.0	36.8	21.4	111.9
High Street Restaurants – disposed of	23.3	1.4	0.7	–
Total restaurants	1,024.2	144.6	98.7	882.9
David Lloyd Leisure	183.0	63.2	43.3#	476.5
Developing business	–	–	–	–
Total sports, health and fitness	183.0	63.2	43.3	476.5
	1,803.4	404.8	280.3	3,114.0
Beer and Other Drinks	65.9	16.6	16.6	49.0
Inter-segment turnover (see note below)	(2.5)			
Central Costs	98.3	(20.8)	(22.3)	(238.5)
Exceptional items (note 4)		(5.0)	(5.0)	
Group including joint ventures and associates	1,965.1	395.6	269.6	2,924.5
Share of joint ventures	(171.0)	(15.1)	(15.1)	(42.2)
Share of associates		(17.8)	(17.8)	(56.7)
Group excluding joint ventures and associates	1,794.1	362.7	236.7	2,825.6
By geographical segment				
United Kingdom	1,894.7	388.1	265.7	2,882.2
Rest of the world	70.4	7.5	3.9	42.3
Group including joint ventures and associates	1,965.1	395.6	269.6	2,924.5

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

	2003/4 £m	2002/3 £m
Marriott brands	**8.0**	8.0
David Lloyd Leisure	**0.4**	0.4

Following the sale of the Whitbread Beer Company there remained a continuing activity within the Beer segment. This ceased on 15 April 2003.

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

Segmental turnover includes the group's share of joint venture turnover as follows:

	2003/4 £m	2002/3 £m
Travel Inn	3.6	2.8
High Street Restaurants	185.6	168.2
	189.2	171.0

Inter-segment turnover was from High Street Restaurants to the other segments. Central Costs 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 was not materially different. Sales between geographical segments were not material.

Net assets included above are total net assets excluding net debt.

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

	2003/4 £m	2002/3 £m
Marriott brands	15.5	–
David Lloyd Leisure	–	5.0
	15.5	5.0

3 Profit and loss account details

2003/4	Continuing operations £m	Acquisitions £m	Total before exceptionals £m	Operating exceptional items £m	Total after exceptionals £m
Turnover	1,786.7	1.5	1,788.2	–	1,788.2
Cost of sales	(484.6)	–	(484.6)	–	(484.6)
Gross profit	1,302.1	1.5	1,303.6	–	1,303.6
Distribution to customers (including retail branch costs)	(883.6)	(1.7)	(885.3)	–	(885.3)
Administration and other costs	(166.2)	(0.1)	(166.3)	(15.5)	(181.8)
Group operating profit	252.3	(0.3)	252.0	(15.5)	236.5

2002/3 (restated)	Total before exceptionals £m	Operating exceptional items £m	Total after exceptionals £m
Turnover	1,794.1	–	1,794.1
Cost of sales	(538.8)	–	(538.8)
Gross profit	1,255.3	–	1,255.3
Distribution to customers (including retail branch costs)	(843.6)	(5.0)	(848.6)
Administration and other costs	(170.0)	–	(170.0)
Group operating profit	241.7	(5.0)	236.7

Details of the restatement are included in note 1.

3 Profit and loss account details (continued)

	2003/4 £m	2002/3 £m
Included above are:		
Amortisation of intangible fixed assets (note 13)	8.4	8.4
Depreciation of tangible fixed assets (note 14)	119.5	117.6
Operating lease rentals:		
Hire of plant and machinery	7.8	5.5
Property and other operating leases	52.6	52.6
Principal auditors' fees (see below)	0.9	0.9
Staff costs (note 6)	552.0	530.3
Principal auditors' fees		
Audit services		
Statutory audit – UK	0.6	0.5
– overseas	0.1	0.1
Audit related regulatory reporting	0.1	–
Further assurance services	–	0.2
Tax services		
Compliance services	0.1	0.1
	0.9	0.9

4 Exceptional items

	2003/4 £m	2002/3 £m
Operating items		
Onerous contract on non-trading leasehold property	–	(5.0)
Impairment of property (note 14)	(4.4)	–
Impairment of goodwill (note 13)	(11.1)	–
Charged against operating profit	(15.5)	(5.0)
Non-operating items		
Net profit/(loss) on disposal of fixed assets		
Group excluding joint ventures and associates	(10.8)	0.8
Joint ventures	0.4	0.5
Associates	0.1	0.3
Net loss on the disposal of businesses	–	(7.8)
	(25.8)	(11.2)
Exceptional financing costs (note 8)	(3.3)	–
Exceptional current UK tax adjustment (note 9)	26.5	16.4
Deferred tax on exceptional items (note 9)	3.7	–
	1.1	5.2

The impairment of goodwill and the impairment of property relates to five properties within Marriott brands. The impairment was calculated by reference to estimated net realisable value.

The net loss of £10.8m on the disposal of fixed assets for the group excluding joint ventures and associates relates primarily to book losses on the sales of pub restaurants and the Swallow hotels.

The 2002/3 £5.0m onerous contract provision relates to a site which is not being developed.

5 Directors' emoluments

Details of directors' emoluments are disclosed in the Remuneration Report on pages 40 to 48.

6 Staff costs and numbers

	2003/4 £m	2002/3 £m
Wages and salaries	504.6	485.8
Social security costs	38.1	33.5
Pension costs (note 7)	9.3	11.0
	552.0	530.3

The average number of persons directly employed in the various sectors of the business was as follows:

	2003/4	2002/3
Marriott brands	10,446	11,547
Travel Inn	6,075	5,902
Total hotels	16,521	17,449
Pub Restaurants	21,848	23,402
High Street Restaurants – retained	8,682	8,081
High Street Restaurants – disposed of	–	782
Total restaurants	30,530	32,265
David Lloyd Leisure	5,303	5,105
Developing business	4	–
Total sports, health and fitness	5,307	5,105
	52,358	54,819
Beer and Other Drinks	–	429
Central Costs	79	67
	52,437	55,315

Excluded from the above are employees of joint ventures and associated undertakings.

7 Pensions

The defined benefit (final salary) section of the principal group pension scheme, the Whitbread Group Pension Fund, which was available to eligible UK full-time and part-time employees, was closed to new members on 31 December 2001. There was also a defined contribution scheme available to employees which was also closed to new members on 31 December 2001. Both schemes are funded and contributions 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. A replacement, contracted-in, defined contribution arrangement was established as a section of the Whitbread Group Pension Fund with effect from 1 April 2002. The total non government pension cost for the group, including directors, is analysed below:

	2003/4 £m	2002/3 £m
Funded schemes	**8.8**	10.5
Unfunded scheme	**0.4**	0.5
Overseas schemes	**0.1**	–
	9.3	11.0

The pension cost relating to the defined benefit section of the Whitbread Group Pension Fund is assessed in accordance with actuarial advice from Hewitt, Bacon & Woodrow, using the projected unit credit valuation basis. As the scheme is now closed to new members the current service cost, under the projected unit credit valuation basis, will increase as a percentage of salary as members of the scheme approach retirement although the overall cost will decrease as the number of members decreases.

The pension cost for the year has been based on the latest actuarial valuation which was carried out as at 31 March 2002. The assumptions were derived from market yields. Separate assumptions were made for the discount rate used to value liabilities and the return expected on the assets. The value of the assets was calculated as an average of the market values over the past 3 years.

The main valuation assumptions were that the return on investments would be 4.9% per annum above inflation, that the discount rate would be 3.4% per annum above inflation until retirement and 2.9% per annum above inflation thereafter, that the annual increase in pensionable salaries (including promotional increases) would be 2.0% above inflation and that the annual increase in pensions in payment would average 0.1% per annum below inflation. The regular cost is derived as the service cost (calculated using the real discount rates set out above) less an adjustment reflecting the excess of the expected return on the assets over interest on the liabilities. The average expected remaining service life of current employees is 8 years.

Since the valuation date, the value of the assets of the Fund has fallen in line with investment markets generally. If the value of investments does not recover, pension cost is likely to rise following the next valuation of the Fund due as at 31 March 2005.

Membership of the defined benefit section of the fund at 4 March 2004 was 4,598 (2003 – 6,079).

The increase in the pension prepayment included in debtors (note 20) represents funding paid to Whitbread Group Pension Fund in excess of the pension cost.

The Board announced in April 2003 that the company had signed an agreement with Whitbread Pension Trustees Limited. Under that agreement, the company has undertaken to fund the pension scheme for a period of up to 15 years and given undertakings to the trustees similar to some of the covenants provided in respect of its banking agreements. As a consequence of this agreement, payments are being made into the fund for each of the next three years starting in 2003/4, at a rate of £15m above the anticipated SSAP 24 charge. There will be no change to the charge to the profit and loss account, as a consequence of this agreement, before the next triennial valuation in March 2005.

Financial Reporting Standard 17 – Retirement Benefits will change fundamentally the calculation and reporting of the cost of retirement benefits. The disclosures below relate to the retirement benefit plans in the UK.

The principal assumptions used by the independent qualified actuaries in updating the most recent valuations of the UK schemes to 4 March 2004 for FRS 17 purposes were:

	At 4 March 2004	At 1 March 2003
Rate of increase in salaries	**4.4%**	4.0%
Rate of increase in pensions in payment and deferred pensions	**2.8%**	2.5%
Discount rate	**5.6%**	5.6%
Inflation assumption	**2.9%**	2.5%

7 Pensions (continued)

The assets in the scheme and the expected rate of return were:

	Long-term rate of return expected at 4 March 2004	Value at 4 March 2004 £m	Long-term rate of return expected at 1 March 2003	Value at 1 March 2003 £m	Long-term rate of return expected at 2 March 2002	Value at 2 March 2002 £m
Equities	7.80%	550.0	7.40%	564.0	7.50%	835.0
Government bonds	4.80%	319.0	4.40%	122.0	5.00%	74.0
Corporate bonds	5.50%	72.0	5.10%	113.0	5.90%	79.0
Property	–	–	–	–	7.50%	7.0
Cash	4.00%	11.0	3.75%	13.0	4.00%	48.0
Total market value of assets		952.0		812.0		1,043.0
Present value of scheme liabilities		(1,318.0)		(1,232.0)		(1,127.0)
Deficit in scheme		(366.0)		(420.0)		(84.0)
Related deferred tax asset		109.8		126.0		25.2
Net pension liability		(256.2)		(294.0)		(58.8)

If FRS 17 had been adopted in the financial statements, the group's net assets and profit and loss reserve at 4 March 2004 would have been as follows:

	2004 £m	2003 (restated) £m
Net assets excluding SSAP 24 pension asset/(liability)	2,060.9	1,957.0
FRS 17 pension liability	(256.2)	(294.0)
	1,804.7	1,663.0
Profit and loss reserve excluding SSAP 24 pension asset/(liability)	3,583.6	3,485.9
FRS 17 pension reserve	(256.2)	(294.0)
	3,327.4	3,191.9

Analysis of the amount that would have been charged to the profit and loss account:

	2003/4 £m	2002/3 £m
Analysis of the amount that would have been charged to operating profit:		
Current service cost	12.5	13.0
Past service cost	–	0.5
Total charge	12.5	13.5
Analysis of the amount that would have been (charged)/credited to other finance income:		
Expected return on pension scheme assets	53.0	72.0
Interest on pension scheme liabilities	(68.0)	(65.5)
Net return/(charge)	(15.0)	6.5
Net charge to the profit and loss account	27.5	7.0

7 Pensions (continued)

Analysis of the amount that would have been recognised in the statement of total recognised gains and losses (STRGL):

	2003/4 £m	2002/3 £m
Actual return less expected return on pension scheme assets	118.0	(267.5)
Experience gains and losses arising on the scheme liabilities	(6.0)	(1.0)
Changes in assumptions underlying the present value of the scheme liabilities	(53.5)	(85.5)
Actuarial gain/(loss) recognised in the STRGL	58.5	(354.0)

Analysis of the movement in scheme deficit during the year:

	2003/4 £m	2002/3 £m
Deficit in the scheme at 1 March 2003	(420.0)	(84.0)
Movement in the year:		
Current service cost	(12.5)	(13.0)
Contributions paid	23.0	25.0
Past service costs	–	(0.5)
Other finance income	(15.0)	6.5
Actuarial gains/(losses)	58.5	(354.0)
Deficit in the scheme at 4 March 2004	(366.0)	(420.0)

History of experience gains and losses:

	2003/4	2002/3
Difference between the expected and actual return on scheme assets		
Value (£m)	118.0	(267.5)
Percentage of scheme assets	12%	33%
Experience gains and losses on scheme liabilities		
Value (£m)	(6.0)	(1.0)
Percentage of the present value of the scheme liabilities	0%	0%
Total amount recognised in the STRGL		
Value (£m)	58.5	(354.0)
Percentage of the present value of the scheme liabilities	4%	29%

8 Interest

	2003/4 £m	2002/3 £m
Interest payable and similar charges:		
Bank loans and overdrafts	11.4	17.7
Other	41.7	45.3
	53.1	63.0
Deduct:		
Interest receivable on short term deposits	(0.6)	(0.8)
Interest receivable from joint ventures and associates	(0.8)	(0.4)
Interest capitalised	(2.2)	(3.7)
	49.5	58.1
Interest payable by:		
Joint ventures	0.5	0.7
Associates	0.6	0.6
	50.6	59.4
Interest from unwinding discounts on provisions (note 24)	1.6	1.6
Exceptional financing costs*	3.3	–
	55.5	61.0

* The exceptional financing costs are associated with the recognition of tax losses (note 9).

9 Tax

	2003/4 £m	2002/3 £m
Current tax on profits for the year before exceptional items:		
UK Corporation Tax	56.1	46.5
Adjustments to UK Corporation Tax for earlier years	(1.0)	(11.3)
	55.1	35.2
Overseas tax	0.4	0.7
Adjustments to overseas tax for earlier years	–	0.1
Joint ventures	5.7	4.8
Associates	5.6	6.1
Exceptional current UK tax adjustment*	(26.5)	(16.4)
Total current tax	40.3	30.5
Deferred tax on profit before exceptional items:		
Timing differences – Group	11.4	13.6
– Joint ventures	0.7	0.6
– Associates	1.0	(1.1)
Deferred tax on exceptional items – Group#	(3.7)	–
Adjustments to deferred tax for earlier years – Group	(2.8)	(2.6)
– Joint ventures	–	2.9
– Associates	–	6.1
Total deferred tax	6.6	19.5
Total tax charge	46.9	50.0

* During the year the group realised the value of tax losses previously unrecognised in the accounts. These have been treated as exceptional. The exceptional tax in the year to 1 March 2003 arose from the release of specific provisions from earlier years.

\# The tax effect of non-operating exceptional costs of £10.3m is a deferred tax credit of £3.7m.

Factors affecting the current tax charge for the year:

	2003/4 £m	2002/3 (restated) £m
Profit before tax	211.7	202.4
Tax at current UK Corporation Tax rate of 30% (2003 – 30%)	63.5	60.8
Effect of:		
Expenses not deductible for tax purposes:		
Impairments	4.7	–
Other (principally goodwill amortisation and depreciation of assets not qualifying for capital allowances)	8.6	8.2
Business disposals and tax thereon	–	3.4
Capital allowances in excess of depreciation	(2.9)	(9.7)
Other timing differences	(4.8)	(4.8)
Higher/(lower) rates on profits of joint ventures and associates	(0.9)	1.4
Use of losses not previously recognised	(23.9)	(1.1)
Adjustments to tax charge in respect of previous years	(4.0)	(27.7)
Total current tax charge	40.3	30.5

Factors that may affect the future tax charge
The key factors which may affect the future tax charge include the availability of capital allowances in excess of depreciation on assets qualifying for capital allowances.

10 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/(loss) earned for ordinary shareholders and included in the accounts of the parent company amounted to a loss of £(0.7)m (2002/3 – a profit of £198.8m).

11 Ordinary dividends

		2003/4 £m	2002/3 £m
Interim	**6.15** pence per share (2002/3 – 5.57 pence)	**17.7**	16.5
Proposed final	**16.15** pence per share (2002/3 – 14.30 pence)	**47.8**	42.2
	22.30 pence per share (2002/3 – 19.87 pence)	**65.5**	58.7

12 Earnings per share

Basic earnings per share is calculated by dividing earnings for ordinary shareholders of £164.5m (2002/3 – £152.0m) by the weighted average number of ordinary shares in issue during the year of 295.1m (2002/3 – 294.4m).

Adjusted basic earnings per share is calculated as follows:

	Earnings (£m)		Earnings per share (p)	
	2003/4	2002/3 (restated)	2003/4	2002/3 (restated)
Earnings and basic earnings per share	**164.5**	152.0	**55.74**	51.64
Earnings and basic earnings per share attributable to:				
Goodwill amortisation	**8.4**	8.4	**2.85**	2.85
Exceptional costs, net of tax	**(1.1)**	(5.2)	**(0.37)**	(1.77)
Adjusted earnings and basic earnings per share	**171.8**	155.2	**58.22**	52.72

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 and adjusted diluted calculation is 297.0m (2002/3 – 295.4m).

13 Intangible fixed assets

Whitbread Group	Goodwill £m	IT software £m	Total £m
Cost 1 March 2003	168.2	–	168.2
Transferred from fixed assets (note 14)	–	9.0	9.0
Additions	–	16.6	16.6
Cost 4 March 2004	168.2	25.6	193.8
Amortisation 1 March 2003	(26.7)	–	(26.7)
Amortisation for the year	(8.4)	–	(8.4)
Impairment (note 4)	(11.1)	–	(11.1)
Amortisation 4 March 2004	(46.2)	–	(46.2)
Net book amounts 4 March 2004	122.0	25.6	147.6
Net book amounts 1 March 2003	141.5	–	141.5

	2004 £m	2003 £m
Capital expenditure commitments for intangible fixed assets for which no provision has been made	4.7	10.8

All goodwill is being amortised over 20 years, which is its estimated useful economic life. IT software will be amortised over five years from the date at which it becomes fully operational.

The transfer from fixed assets represents a reclassification of the capital costs, as at 2 March 2003, of the group-wide ERP system.

14 Tangible fixed assets

	Administration & logistics		Retail		
Whitbread Group	Land & buildings £m	Furniture, fixtures & equipment £m	Land & buildings £m	Furniture, fixtures & equipment £m	Total £m
Cost or valuation 1 March 2003	18.7	41.9	2,475.8	1,157.7	3,694.1
Foreign exchange movements	–	–	(2.1)	(0.9)	(3.0)
Businesses acquired	–	–	14.9	7.5	22.4
Additions	1.0	3.3	75.4	109.4	189.1
Interest capitalised	–	–	2.2	–	2.2
Transferred to intangible assets (note 13)	–	(9.0)	–	–	(9.0)
Reclassified	–	–	(1.8)	1.8	–
Disposals	(0.1)	(6.1)	(121.0)	(227.0)	(354.2)
Cost or valuation 4 March 2004	19.6	30.1	2,443.4	1,048.5	3,541.6
Depreciation 1 March 2003	(1.4)	(19.6)	(82.9)	(545.1)	(649.0)
Foreign exchange movements	–	–	0.6	0.6	1.2
Businesses acquired	–	–	(0.3)	(1.6)	(1.9)
Depreciation for the year	(0.3)	(3.4)	(18.7)	(97.1)	(119.5)
Impairment of property (note 4)	–	–	(4.4)	–	(4.4)
Disposals	–	6.3	5.2	210.2	221.7
Depreciation 4 March 2004	(1.7)	(16.7)	(100.5)	(433.0)	(551.9)
Net book amounts 4 March 2004	17.9	13.4	2,342.9	615.5	2,989.7
Net book amounts 1 March 2003	17.3	22.3	2,392.9	612.6	3,045.1

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 adopted FRS 15 (Tangible Fixed Assets). The transitional provisions of FRS 15 were applied and, whilst previous valuations have been retained, they have not been updated. From 1999/2000 it has been group policy not to revalue fixed assets. Past revaluations were performed by external valuers.

14 Tangible fixed assets (continued)

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

Whitbread Group	Administration & logistics Land & buildings £m	Administration & logistics Furniture, fixtures & equipment £m	Retail Land & buildings £m	Retail Furniture, fixtures & equipment £m	Total £m
Cost	**19.6**	**30.1**	**2,299.6**	**1,048.5**	**3,397.8**
Depreciation	**(1.7)**	**(16.7)**	**(81.2)**	**(433.0)**	**(532.6)**
Net book amounts 4 March 2004	**17.9**	**13.4**	**2,218.4**	**615.5**	**2,865.2**
Net book amounts 1 March 2003	17.3	22.3	2,258.4	612.6	2,910.6

Net book amounts of properties:	Freehold £m	Long leasehold £m	Short leasehold £m	Total £m
4 March 2004	**1,499.6**	**747.7**	**113.5**	**2,360.8**
1 March 2003	1,596.5	709.0	104.7	2,410.2

Cost or valuation of properties:	2004 £m	2003 £m
As valued 1992/3	**2.9**	3.2
As valued 1993/4	**11.0**	9.1
As valued 1994/5	**77.8**	83.2
As valued 1995/6	**95.8**	110.9
As valued 1996/7	**121.2**	125.6
As valued 1997/8	**142.3**	153.2
As valued 1998/9	**229.4**	223.8
At cost	**1,782.6**	1,785.5
	2,463.0	2,494.5
Capital expenditure commitments for tangible fixed assets for which no provision has been made	**45.9**	33.7

15 Investment in subsidiary undertakings

Whitbread PLC	2004 £m	2003 £m
Shares at cost		
1 March 2003	**2,256.1**	2,256.1
Additions	**–**	–
4 March 2004	**2,256.1**	2,256.1
Amounts due to subsidiary undertakings	**(518.3)**	(463.1)
	1,737.8	1,793.0

Principal subsidiary undertakings	Principal activity	Country of incorporation or registration	Country of principal operations	% of equity and votes held
Whitbread Group PLC	Restaurants & Hotels	England	England	100
David Lloyd Leisure Ltd	Leisure	England	England	100
Whitbread Hotel Company Ltd	Hotels	England	England	100
Swift Hotels Ltd	Hotels	England	England	100
Whitbread Hotels Ltd	Hotels	England	England	100
Costa Ltd	Roasters, wholesalers and retailers of coffee	England	England	100
Whitbread Restaurants Holdings GmbH	Restaurants	Germany	Germany	100

Shares in Whitbread Group PLC are held directly by Whitbread PLC. Shares in the other subsidiaries, with the exception of Swift Hotels Ltd, are held by Whitbread Group PLC. Swift Hotels Ltd is a subsidiary of Whitbread Hotel Company Ltd.

All principal 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 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.

16 Unlisted investments in joint ventures

Whitbread Group	Investments £m	Loans £m	Total £m
Share of net assets 1 March 2003	40.4	1.8	42.2
Share of retained profits less losses	2.5	–	2.5
Share of net assets 4 March 2004	42.9	1.8	44.7
Directors' valuation			
4 March 2004	135.0	1.8	136.8
1 March 2003	93.8	1.8	95.6

Principal joint ventures

	Principal activity	Total equity par value (a) £m	Whitbread holding of (a)	Loans to joint ventures 2004 £m	Loans to joint ventures 2003 £m
Pizza Hut (UK) Ltd	Restaurants	0.8	50%	–	–
Spirit Travel Inn Ltd	Hotels	6.3	50%	1.8	1.8

The above companies are registered in England, which is also the main area of their operations. The investments are held by Whitbread Group PLC and Whitbread Hotels Ltd. All joint ventures have the same year end as Whitbread PLC except Pizza Hut (UK) Ltd which has a year end of 30 November.

Analysis of share of net assets	2004 £m	2003 £m
Tangible fixed assets	76.8	71.8
Current assets	13.3	6.3
Liabilities due within one year	(36.6)	(27.8)
Liabilities due after one year	(10.6)	(9.9)
Net assets	42.9	40.4

17 Unlisted investments in associates

Whitbread Group	Investments £m	Loans £m	Total £m
Share of net assets 1 March 2003	49.6	7.1	56.7
Additions	1.9	–	1.9
Share of retained profits less losses	3.4	–	3.4
Movement in reserves	3.3	–	3.3
Share of net assets 4 March 2004	58.2	7.1	65.3
Directors' valuation			
4 March 2004	131.3	7.1	138.4
1 March 2003	108.1	7.1	115.2

Principal associates

	Principal activity	Total equity par value (a) £m	Whitbread holding of (a)	Loans to associates 2004 £m	Loans to associates 2003 £m
Britannia Soft Drinks Ltd (note 36)	Soft drinks	138.7	25%	–	–
Poles Ltd	Hotel	3.1	26%	4.7	4.7
Neptune Whitbread Hotel Ltd	Hotel	–	20%	2.4	2.4
Morrison Street Hotel Ltd	Hotel	1.7	40%	–	–

The above companies, except Morrison Street Hotel Ltd are registered in England, which is also the main area of their operations. Morrison Street Hotel Ltd is registered in Scotland, which is also the main area of its operations. The investments are held by Whitbread Group PLC and Whitbread Hotel Company Ltd. All principal associates have the same year end as Whitbread PLC except Britannia Soft Drinks Ltd which has a year end of 30 September.

18 Other investments

Whitbread Group	Listed £m	Unlisted £m	Total £m
Cost or valuation 1 March 2003 – as reported	9.6	0.3	9.9
Prior year adjustment for UITF abstracts 17 – as amended and 38 (note 1)	(9.6)	–	(9.6)
Cost or valuation 1 March 2003 – as restated	–	0.3	0.3
Additions	–	3.4	3.4
Cost or valuation 4 March 2004	–	3.7	3.7
Amortisation/provisions 1 March 2003 – as reported	(2.9)	–	(2.9)
Prior year adjustment for UITF abstracts 17 – as amended and 38 (note 1)	2.9	–	2.9
Amortisation/provisions 1 March 2003 – as restated and 4 March 2004	–	–	–
Net book amounts 4 March 2004	–	3.7	3.7
Net book amounts 1 March 2003	–	0.3	0.3
Directors' valuation			
4 March 2004		3.7	3.7
1 March 2003		0.3	0.3

19 Stocks

	Group 2004 £m	Group 2003 £m
Raw materials and consumables	1.0	0.7
Finished goods	23.4	23.2
	24.4	23.9

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

20 Debtors

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Amounts falling due within one year				
Trade debtors	46.7	36.8	–	–
Joint ventures	8.5	8.3	–	–
Associates	1.5	3.9	–	–
Other debtors	19.1	17.8	0.6	–
Prepayments and accrued income	29.4	28.4	–	–
	105.2	95.2	0.6	–
Amounts falling due after more than one year				
Deferred consideration for property disposals	4.8	–	–	–
Pension prepayment under SSAP 24	51.7	35.9	–	–
	56.5	35.9	–	–

21 Creditors – amounts falling due within one year

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Loan capital (note 22)	5.8	90.1	–	–
Bank overdrafts	48.1	46.1	–	–
Trade creditors	101.0	116.3	–	–
Associates	0.8	–	–	–
Corporation Tax	24.2	23.1	–	–
Other taxes and social security	44.7	35.4	–	–
Accruals and deferred income	100.0	65.1	–	–
Other creditors	47.8	55.7	–	0.5
Proposed final dividend on ordinary shares	47.8	42.6	47.8	42.6
	420.2	474.4	47.8	43.1

22 Loan capital

Subsidiary undertakings	Repayment dates	Interest rates	2004 £m	2003 £m
Secured:				
Redeemable debenture stock (nominal value £200.5m)	2011	11.625%#	**209.1**	210.0
Redeemable debenture stock (nominal value £100m)	2021	8.125%	**100.0**	100.0
Other loans	2003 to 2008	Variable	**3.6**	4.1
Bank loan	2003 to 2009	8.0%	**4.2**	4.6
Bank loan	2003 to 2006	10.0%	**0.2**	0.3
Bank loan	2003 to 2012	Variable	**0.5**	–
Debenture (nominal value £10m)	2010	11.75%#	**12.4**	12.7
Debenture (nominal value £25m)	2015	9.875%#	**31.9**	32.3
Debenture (nominal value £80m)	2019	10.75%#	**113.4**	114.7
Debenture	Not fixed	Nil	**0.2**	0.5
Loan	2003 to 2006	11.28%	**2.0**	2.0
Unsecured:				
Loan notes	2003	Variable	**–**	11.8
Loan notes	2011 to 2013	Variable	**2.1**	2.1
Loan notes	2003 to 2012	5.0%	**2.0**	3.0
Revolving credit facility (£475m)	2005	Variable	**117.5**	297.3
Revolving credit facility (£280m)	2008	Variable	**114.5**	–
Bonds (nominal value £100m)	2007	8.25%#	**99.7**	99.5
Bank loan	2003	Variable	**–**	75.0
Whitbread Group			**813.3**	969.9

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 group has entered into agreements which swap the fixed interest rate of £192.4m nominal value (£199.1m 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. In addition the group has entered into agreements which swap the variable rates on £150m of debt (2003 – £225m) to fixed rates of between 5.43% and 8.15% (2003 – 5.22% and 8.15%) for periods of up to 5 years (2003 – up to 6 years).

Summarised as follows:	Group 2004 £m	Group 2003 £m
Repayable:		
In one year or less, or on demand	**3.1**	87.5
In more than one year, but not more than two	**118.7**	298.2
In more than two years, but not more than five	**220.1**	106.9
In more than five years – repayable by instalments	**3.2**	3.6
– other	**417.7**	420.6
Total loans	**762.8**	916.8
Premiums, issue costs, etc.	**50.5**	53.1
	813.3	969.9
Deduct falling due within one year (note 21)	**(5.8)**	(90.1)
Falling due after more than one year	**807.5**	879.8

In 2003 loan capital included an amount of £75m arising from two offsetting derivative contracts that in substance were a short term loan. The transaction matured in May 2003.

The total of instalment loans, any part of which falls due after more than five years, amounts to £4.2m (2003 – £4.6m). Included within amounts repayable between one and two years and two and five years are £117.5m and £115m respectively (2003 – £297.3m between one and two years) which are repayable in less than one year. These advances were made under credit facility agreements with original lives of five years. Under the terms of the agreements, 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 Finance Director's Review. Overdrafts, which are all repayable within one year, are disclosed in note 21.

23 Financial instruments

The group's objectives and policies on the use of financial instruments, including derivatives, can be found in the Finance Director's 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

				Loan capital[q]			Weighted averages re fixed rate debt[#]	
	Total £m	Cash £m	Over-drafts[†] £m	Floating rate[§] £m	Interest free £m	Fixed rate £m	Interest rate	Period rate is fixed for
2004								
Sterling	**741.2**	**(48.0)**	**48.1**	**319.3**	**0.2**	**421.6**	**6.8%**	**7.5 years**
Euro	**51.4**	**(20.8)**	**–**	**68.0**	**–**	**4.2**	**8.0%**	**5.8 years**
Net debt (note 30)	**792.6**	**(68.8)**	**48.1**	**387.3**	**0.2**	**425.8**		
2003								
Sterling	905.9	(57.6)	46.1	417.1	0.5	499.8	6.7%	7.5 years
Euro	34.7	(17.8)	–	47.9	–	4.6	8.0%	6.8 years
Net debt (note 30)	940.6	(75.4)	46.1	465.0	0.5	504.4		

The average years to maturity of interest free net debt is not quoted as this amount represents a loan with no fixed repayment date.

Analysis of currency and interest rate exposure of financial assets

	Total £m	Cash £m	Loans to joint ventures and associates £m	Interest bearing debtor £m
2004				
Sterling	**61.7**	**48.0**	**8.9**	**4.8**
Euro	**20.8**	**20.8**	**–**	**–**
Financial assets	**82.5**	**68.8**	**8.9**	**4.8**
2003				
Sterling	66.5	57.6	8.9	–
Euro	17.8	17.8	–	–
Financial assets	84.3	75.4	8.9	–

					Weighted averages re fixed rate assets	
	Total £m	Floating rate £m	Interest free £m	Fixed rate £m	Interest rate	Period rate is fixed for
2004						
Sterling	**61.7**	**4.8**	**49.3**	**7.6**	**7.1%**	**6.4 years**
Euro	**20.8**	**20.8**	**–**	**–**		
Financial assets	**82.5**	**25.6**	**49.3**	**7.6**		
2003						
Sterling	66.5	–	58.9	7.6	7.1%	7.4 years
Euro	17.8	16.5	1.3	–		
Financial assets	84.3	16.5	60.2	7.6		

Interest free financial assets are mainly cash balances with no fixed maturity dates.

23 Financial instruments (continued)

Analysis of currency and interest rate exposure of financial liabilities

	Total £m	Prov-isions¥ £m	Non-equity minority interests* £m	Over-drafts† £m	Loan capital £m
2004					
Sterling	**819.3**	**27.0**	**3.1**	**48.1**	**741.1**
Euro	**72.2**	**–**	**–**	**–**	**72.2**
Financial liabilities	**891.5**	**27.0**	**3.1**	**48.1**	**813.3**
2003					
Sterling	995.1	28.5	3.1	46.1	917.4
Euro	52.5	–	–	–	52.5
Financial liabilities	1,047.6	28.5	3.1	46.1	969.9

	Totalq £m	Floating rate§ £m	Interest free £m	Fixed rate £m	Weighted averages re fixed rate debt# Interest rate	Weighted averages re fixed rate debt# Period rate is fixed for
2004						
Sterling	**819.3**	**367.4**	**15.8**	**436.1**	**7.0%**	**8.0 years**
Euro	**72.2**	**68.0**	**–**	**4.2**	**8.0%**	**5.8 years**
Financial liabilities	**891.5**	**435.4**	**15.8**	**440.3**		
2003						
Sterling	995.1	463.3	18.0	513.8	6.8%	7.9 years
Euro	52.5	47.9	–	4.6	8.0%	6.8 years
Financial liabilities	1,047.6	511.2	18.0	518.4		

† Interest on overdrafts is based on floating rates linked to LIBOR.
§ Interest rates on floating rate loans are all linked to LIBOR.
q The analysis of fixed and floating rates takes account of interest rate swaps.
The weighted averages for fixed rate debt excludes loans swapped to variable and non-equity minority interests.
* The non-equity minority interests are the preference shares issued by Whitbread Hotel Company Ltd. The rights of these preference shares are disclosed in the accounts of Whitbread Hotel Company Ltd.
¥ Provisions include onerous contracts and other provisions (note 24).

The group has entered into agreements which swap the fixed interest rate of £192.4m nominal value (£199.1m 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. In addition the group has entered into agreements which swap the variable rates on £150m of debt (2003 – £225m) to fixed rates of between 5.43% and 8.15% (2003 – 5.22% and 8.15%) for periods of up to 5 years (2003 – up to 6 years).

Interest free liabilities are mainly onerous contracts and other provisions with no fixed maturity dates.

23 Financial instruments (continued)

Fair values of financial instruments

	Carrying values		Fair values	
	2004 £m	2003 £m	2004 £m	2003 £m
Short term borrowings less cash and deposits	20.7	29.3	20.7	29.3
Loans to joint ventures and associates	8.9	8.9	8.9	8.9
Interest bearing debtor	4.8	–	4.8	–
Provisions	(27.0)	(28.5)	(27.0)	(28.5)
Non-equity minority interests	(3.1)	(3.1)	(2.8)	(2.6)
Loan capital	(813.3)	(969.9)	(975.6)	(1,148.6)
Derivatives relating to loan capital				
Interest rate swaps	–	–	91.7	110.7

The fair value of loan capital and derivative instruments is calculated by discounting all future cash flows by the market yield curve at the balance sheet date.

The fair value of non-equity minority interests is based on the market price.

Functional currencies of group operations
Other than currency funding for overseas net investments, there are no material monetary assets and liabilities which are denominated in currencies other than the local currency of the entity owning them. Exchange gains and losses on currency funding for overseas net investments are dealt with in the statement of total recognised gains and losses.

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

	2003/4 £m	2002/3 £m
Unrecognised net gains on hedges at 1 March 2003	110.7	95.3
Net gains arising in previous years that were recognised in the year	(11.8)	(11.1)
Net gains arising in previous years that were not recognised in the year	98.9	84.2
Net gains/(losses) arising in the year that were not recognised in the year	(7.2)	26.5
Unrecognised net gains on hedges at 4 March 2004	91.7	110.7
Of which, net gains expected to be recognised:		
– next year	7.5	12.1
– in subsequent years	84.2	98.6
	91.7	110.7

24 Provisions for liabilities and charges

	Reorganisation/ restructuring £m	Onerous contracts £m	Other £m	Deferred tax £m	Total £m
Whitbread Group					
1 March 2003	0.2	19.5	9.0	149.4	178.1
Created	0.1	–	0.7	4.9	5.7
Unwound discounts (note 8)	–	1.6	–	–	1.6
Businesses acquired	–	–	–	(1.7)	(1.7)
Utilised	(0.1)	(3.6)	–	–	(3.7)
Released	–	(0.1)	(0.1)	–	(0.2)
4 March 2004	0.2	17.4	9.6	152.6	179.8
Whitbread PLC					
1 March 2003 and 4 March 2004	–	–	5.0	–	5.0

With the exception of an onerous contract provision in connection with businesses acquired of £11.4m (2003 – £11.0m) provisions have not been discounted. It is expected that the reorganisation and restructuring provisions will be used within one year of the balance sheet date.

Other provisions relate to warranties given on the disposal of businesses. These provisions are expected to be used over periods of up to 5 years.

Onerous contracts provisions are expected to be used over periods of up to 30 years.

The deferred tax provision in the accounts comprises:

	2004 £m	2003 £m
Accelerated capital allowances	143.0	144.6
Pension prepayment	9.6	4.8
	152.6	149.4

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. No provision has been made for any additional liability to UK or overseas tax on the distribution of unappropriated profits or reserves of overseas subsidiaries, except to the extent that such distributions have been accrued as receivable.

No provision has been made for deferred tax on the sale of properties where gains have been rolled over into replacement assets. The total amount unprovided for is estimated at £95.1m (2003 – £82.6m).

Following the enactment of legislation, in the Finance Act 2002, to exempt from tax gains on disposals of substantial shareholdings no deferred tax is provided in respect of any gains which might arise in the event of investments being sold at their valuation amounts.

25 Share capital

Whitbread PLC	Authorised		Allotted, called up and fully paid	
	2004 £m	2003 £m	2004 £m	2003 £m
Ordinary shares of 50 pence each	315.0	315.0	148.7	148.0
Number of ordinary shares in issue (m)			297.4	296.0

Ordinary shares	Share capital £m	Share premium £m
1 March 2003	148.0	7.3
Issued to employees by exercise of options	0.7	6.2
4 March 2004	148.7	13.5

Changes in authorised, allotted and issued ordinary share capital
At 4 March 2004 there were outstanding options for employees to purchase up to 8.6m (2003 – 9.8m) ordinary shares of 50 pence each between 2004 and 2013 at prices ranging between 413.0 pence per share and 1,101.0 pence per share. During the year to 4 March 2004 options on 1.4m (2003 – 0.3m) ordinary shares of 50 pence each, fully paid, were exercised by employees under the terms of various share option schemes.

26 Reserves

Whitbread Group	Revaluation reserve £m	Merger reserve £m	Profit & loss account £m	Share scheme reserve £m	Joint ventures & associates £m	Total £m
1 March 2003 – as reported	134.5	(1,855.0)	3,509.9		39.2	1,828.6
Prior year adjustment for UITF abstracts 17 – as amended and 38 (note 1)			2.9	(9.6)		(6.7)
1 March 2003 – as restated	134.5	(1,855.0)	3,512.8	(9.6)	39.2	1,821.9
Currency translation differences	0.2		(0.9)			(0.7)
Profit retained			93.1		5.9	99.0
Accrued share based payments			5.9			5.9
Realised revaluation gain transferred to the profit and loss account	(10.2)		10.2			–
Movement on associates' reserves					3.3	3.3
4 March 2004	124.5	(1,855.0)	3,621.1	(9.6)	48.4	1,929.4
Whitbread PLC						
1 March 2003			1,589.6			1,589.6
Loss retained			(66.2)			(66.2)
4 March 2004			1,523.4			1,523.4

Goodwill	£m
Net amount written off against reserves to 1 March 2003 and 4 March 2004	298.2

The share scheme reserve referred to above relates to shares held by an independently managed employee share ownership trust ('ESOT'). These shares were purchased in order to satisfy outstanding employee share options and potential awards under the Long Term Incentive Plan (the 'Plan').

At 4 March 2004 the ESOT owned 1.41m shares (2003 – 1.41m shares) in Whitbread PLC, the market value of which was £10.5m (2003 – £7.4m). The ESOT 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 40 to 48.

27 Shareholders' funds

	2004 £m	2003 (restated) £m
Movements in shareholders' funds		
Equity shareholders' funds at 1 March 2003 – as reported	1,983.9	1,882.0
Prior year adjustment for UITF abstracts 17 – as amended and 38 (note 1)	(6.7)	(6.9)
Equity shareholders' funds at 1 March 2003 – as restated	1,977.2	1,875.1
Profit earned for ordinary shareholders	164.5	152.0
Dividends	(65.5)	(58.7)
	99.0	93.3
Other recognised gains and losses relating to the year	(0.7)	0.2
Accrued share based payments	5.9	0.6
Movement on associates' reserves	3.3	–
Goodwill on disposal	–	4.8
Share capital issued	6.9	3.2
Equity shareholders' funds at 4 March 2004	2,091.6	1,977.2

28 Net cash inflow from operating activities

	2003/4 £m	2002/3 (restated) £m
Group operating profit	236.5	236.7
Depreciation/amortisation	127.9	126.0
Impairment of property and goodwill	15.5	–
Payments against provisions	(2.4)	(4.9)
Other non-cash items	5.9	8.3
(Increase)/decrease in stocks	(0.5)	2.3
Increase in debtors	(21.9)	(24.7)
Increase in creditors	21.9	11.5
Cash flow from operating activities	382.9	355.2

29 Acquisitions

	Book value £m	Fair value adjustments £m	2003/4 £m
Tangible fixed assets	20.2	0.3	20.5
Net working capital, excluding cash	(1.4)	–	(1.4)
Deferred tax	–	1.7	1.7
Cash	1.0	–	1.0
Cost of business acquired	19.8	2.0	21.8

Cash outflow in respect of business acquired	
Cost of business acquired	21.8
Accrued acquisition costs	(0.2)
Cash of business acquired	(1.0)
Cash outflow	20.6

The above relates to the acquisition, on 31 December 2003, of the Cannons health club business in The Netherlands.

30 Balance sheet movements in cash and net debt

2003/4	2003 £m	Cash flow £m	Foreign exchange £m	Amortisation of premiums and discounts £m	2004 £m
Cash at bank and in hand	75.4				68.8
Overdrafts (note 21)	(46.1)				(48.1)
	29.3	(7.1)	(1.5)	–	20.7
Less short-term securities, bank deposits and borrowings	15.0	13.0	–	–	28.0
Cash	44.3	5.9	(1.5)	–	48.7
Short-term securities and bank deposits	5.7	(5.3)	–	–	0.4
Short-term bank borrowings	(20.7)	(7.7)	–	–	(28.4)
Loan capital under one year	(90.1)				(5.8)
Loan capital over one year	(879.8)				(807.5)
Total loan capital (note 22)	(969.9)	151.3	2.7	2.6	(813.3)
Net debt	(940.6)	144.2	1.2	2.6	(792.6)

2002/3	2002 £m	Cash flow £m	Foreign exchange £m	Amortisation of premiums and discounts £m	2003 £m
Cash at bank and in hand	73.1				75.4
Overdrafts (note 21)	(53.1)				(46.1)
	20.0	9.1	0.2	–	29.3
Less short-term securities, bank deposits and borrowings	14.4	0.6	–	–	15.0
Cash	34.4	9.7	0.2	–	44.3
Short-term securities and bank deposits	9.6	(3.9)	–	–	5.7
Short-term bank borrowings	(24.0)	3.3	–	–	(20.7)
Loan capital under one year	(17.5)				(90.1)
Loan capital over one year	(978.5)				(879.8)
Total loan capital (note 22)	(996.0)	31.0	(5.6)	0.7	(969.9)
Net debt	(976.0)	40.1	(5.4)	0.7	(940.6)

31 Reconciliation of net cash flow to movement in net debt

	2003/4 £m	2002/3 £m
Increase in cash in the year	5.9	9.7
Cash outflow from movement in loan capital	151.3	31.0
Cash inflow from movement in liquid resources	(5.3)	(3.9)
Cash (inflow)/outflow from movement in short-term borrowings	(7.7)	3.3
Changes in net debt resulting from cash flows	144.2	40.1
Foreign exchange movements	1.2	(5.4)
Amortisation of premiums and discounts	2.6	0.7
Movement in net debt in the year	148.0	35.4
Opening net debt	(940.6)	(976.0)
Closing net debt	(792.6)	(940.6)

32 Related parties

Material transactions with related parties consisted of purchases of soft drinks from Britannia Soft Drinks Ltd amounting to £14.1m (2002/3 – £15.7m) and sales of food and drink to Pizza Hut (UK) Ltd amounting to £90.9m (2002/3 – £80.9m).

Details of loans to joint ventures and associates are shown in notes 16 and 17. Trading balances with joint ventures and associates are shown in notes 20 and 21. Transactions with directors can be found in the Remuneration Report on pages 40 to 48.

33 Contingent liabilities

There were no material contingent liabilities at 4 March 2004.

At 1 March 2003 the group had an agreement in place to guarantee 50% of the borrowings of a joint venture. The borrowings under this guarantee amounted to £4.3m. The guarantee ceased during the year ending 4 March 2004. There were no other material contingent liabilities at 1 March 2003.

34 Lease commitments

Whitbread Group	Property £m	Plant & machinery £m	2004 Total £m	Property £m	Plant & machinery £m	2003 Total £m
Annual payments under operating leases which expire:						
Within one year	4.1	1.5	5.6	3.2	1.0	4.2
Between one and five years	11.9	6.0	17.9	7.3	5.6	12.9
After five years	39.1	0.4	39.5	39.3	0.3	39.6
	55.1	7.9	63.0	49.8	6.9	56.7

35 Foreign exchange rates

The average euro exchange rate used during the year was 1.439 (2002/3 – 1.571) and the closing rate was 1.496 (2003 – 1.461).

36 Post balance sheet event

In March 2004, we announced that the existing shareholders in Britannia Soft Drinks Ltd (BSD) had signed an agreement with PepsiCo which creates an opportunity to undertake an initial public offering of BSD. Whitbread Group PLC has a 23.75% shareholding in BSD following this agreement.

Profit and loss account – £m

	1999/2000 restated	2000/1P restated	2001/2 restated	2002/3 restated	2003/4
Turnover of group and joint ventures	3,738.9	3,095.2	2,171.6	1,965.1	**1,977.4**
Group turnover	2,951.4	2,954.6	2,014.3	1,794.1	**1,788.2**
Operating profit before exceptional items	412.0	428.2	280.0	274.6	**293.0**
Operating profit as % of turnover of group and joint ventures	11.0%	13.8%	12.9%	14.0%	**14.8%**
Profit before exceptional items and tax	348.9	334.8	213.4	213.6	**240.8**
Profit before tax	256.5	292.3	7.0	202.4	**211.7**
Basic earnings per share (pence)	36.46	37.26	(15.91)	51.64	**55.74**
Adjusted basic earnings per share (pence)	54.23	47.87	47.85	52.72	**58.22**
Ordinary dividends per share (pence)	29.50	31.15	17.80	19.87	**22.30**
Interest cover (times covered)#	6.5	4.6	4.2	4.5	**5.6**
Adjusted ordinary dividend cover (times covered)*	1.8	1.5	2.7	2.7	**2.6**
Average number of employees	73,058	79,209	61,470	55,315	**52,437**

NOTES:

Changes in accounting policies have, where material, been reflected in prior years, except FRS 19, see P below.

P 2000/1 has been adjusted for the deferred tax effect resulting from the introduction of FRS 19. 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

	2000 restated	2001P restated	2002 restated	2003 restated	2004
Intangible fixed assets	157.7	159.2	149.9	141.5	**147.6**
Tangible fixed assets	4,254.3	4,138.1	2,996.1	3,045.1	**2,989.7**
Investments	201.1	94.3	102.9	99.2	**113.7**
Total fixed assets	4,613.1	4,391.6	3,248.9	3,285.8	**3,251.0**
Current assets	526.9	268.9	213.2	230.4	**254.9**
Creditors – amounts falling due within one year	(1,447.1)	(689.9)	(431.8)	(474.4)	**(420.2)**
Net current liabilities	(920.2)	(421.0)	(218.6)	(244.0)	**(165.3)**
Total assets less current liabilities	3,692.9	3,970.6	3,030.3	3,041.8	**3,085.7**
Creditors – amounts falling due after more than one year	(1,120.2)	(1,272.6)	(978.5)	(879.8)	**(807.5)**
Provisions for liabilities and charges	(31.9)	(207.0)	(170.2)	(178.1)	**(179.8)**
	2,540.8	2,491.0	1,881.6	1,983.9	**2,098.4**
Called up share capital	2,235.0	2,207.8	147.7	148.0	**148.7**
Share premium account	–	–	4.4	7.3	**13.5**
Reserves	300.5	277.9	1,723.0	1,821.9	**1,929.4**
Shareholders' funds	2,535.5	2,485.7	1,875.1	1,977.2	**2,091.6**
Minority interests	5.3	5.3	6.5	6.7	**6.8**
	2,540.8	2,491.0	1,881.6	1,983.9	**2,098.4**
Net debt†	1,721.2	1,291.3	976.0	940.6	**792.6**
Gearing (%) ¥	67.7	51.8	51.9	47.4	**37.8**
Net asset value per ordinary share (pence)	510.6	506.7	634.8	668.0	**703.3**

NOTES:

P Provisions and intangible fixed assets have been adjusted for the deferred tax effect resulting from the introduction of FRS 19. Prior years have not been adjusted. A line in the table is to indicate that the earlier years are not comparable.

† Net debt is loan capital and bank overdrafts less cash at bank and in hand (see notes 30 and 31).

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

Cash flow – £m

	1999/2000	2000/1	2001/2	2002/3	2003/4
Cash flow from operating activities	559.0	492.3	352.1	355.2	**382.9**
Dividends from joint ventures and associates	1.7	3.5	2.8	13.3	**21.4**
Returns on investments and servicing of finance	(77.4)	(96.9)	(71.9)	(63.4)	**(55.8)**
Tax paid	(52.8)	(92.9)	(83.4)	(49.6)	**(28.0)**
Capital expenditure and financial investment§	(344.7)	(185.7)	(224.3)	(185.7)	**(102.0)**
Acquisitions and disposals¶	(621.1)	489.3	461.6	23.1	**(20.6)**
Equity dividends paid	(139.3)	(148.2)	(128.1)	(53.9)	**(60.4)**
Net cash inflow/(outflow) before financing	(674.6)	461.4	308.8	39.0	**137.5**
Management of liquid resources	0.2	0.8	0.2	3.9	**5.3**
Financing	704.8	(449.0)	(308.4)	(33.2)	**(136.9)**
Increase in cash	30.4	13.2	0.6	9.7	**5.9**
§Capital expenditure and financial investment					
Property and plant purchased	(372.3)	(331.9)	(286.8)	(218.3)	**(209.0)**
Property and plant sold	16.9	130.8	64.4	29.4	**112.3**
Net investment and loan (increase)/decrease	10.7	15.4	(1.9)	3.2	**(5.3)**
	(344.7)	(185.7)	(224.3)	(185.7)	**(102.0)**
¶Acquisitions and disposals					
New businesses acquired	(632.4)	(11.0)	–	–	**(20.6)**
Businesses sold	11.3	500.3	461.6	23.1	**–**
	(621.1)	489.3	461.6	23.1	**(20.6)**

Analysis of shareholders – 4 March 2004

Range of shares	Number of shareholders	% of shareholders	Number of shares	% of issued shares
1–100	29,923	39.11	1,218,750	0.41
101–500	27,536	35.99	6,893,001	2.32
501–1,000	10,107	13.21	7,115,938	2.39
1,001–5,000	7,469	9.76	14,098,336	4.74
5,001–10,000	495	0.65	3,416,954	1.15
10,001–25,000	321	0.42	4,894,533	1.65
25,001–125,000	365	0.48	21,045,643	7.07
125,001–250,000	105	0.14	19,174,114	6.44
250,001–1,250,000	134	0.18	73,289,228	24.63
1,250,001–2,500,000	31	0.04	57,049,651	19.18
Over 2,500,001	19	0.02	89,300,836	30.02
	76,505	**100.00**	**297,496,984**	**100.00**

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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 Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH. The website address is www.computershare.com. For enquiries regarding your shareholding please telephone 0870 703 0103, or e-mail web.queries@computershare.co.uk. You can also view up-to-date information about your holdings by visiting www.mywhitbreadshares.com. Please ensure that you advise Computershare promptly of any change of address.

Electronic shareholder communications

Shareholders wishing to receive the Annual Report and Accounts and/or the Interim Report in electronic rather than paper form should register their instruction at www.mywhitbreadshares.com in the electronic communications section.

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 or on www.whitbread.co.uk in the shareholder services section.

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 703 0103.

Shareholder benefits

Details of discounts and offers by Whitbread businesses have been mailed with this report. Any future offers will be subject to review by the board. It is intended that next year they will only be sent to those shareholders with at least 100 shares in the company.

Sharegift

If you have a small number of Whitbread PLC shares, with a value that makes it uneconomical to sell them, you may donate the shares to charity through the Sharegift scheme operated by the Orr Mackintosh Foundation. Further information on Sharegift can be obtained from their website (www.sharegift.org) or by calling 020 7337 0501.

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' limited shares of 25p each 103.75p

Whitbread has had discussions with the Inland Revenue concerning the capital gains tax cost of Whitbread shares following the reduction of capital on 10 May 2001. It is confirmed that the market value of each Whitbread share on 10 May 2001 for these purposes was 606.5p and the market value of each Fairbar share was 230p.

Unsolicited mail

We are aware that some other companies' shareholders have had occasion to complain of the use, by outside organisations, of information obtained from those companies' share registers. Whitbread, like other companies, cannot by law refuse to supply such information provided that the organisation concerned pays the appropriate statutory fee.

If you are a resident in the UK and wish to stop receiving unsolicited mail then you should register with the Mailing Preference Service, telephone: 020 7291 3310 or you may prefer to write to:

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Freepost 22, London, W1E 7EZ

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Company Secretary and Registered Office

Simon Barratt

Whitbread PLC,
CityPoint,
One Ropemaker Street,
London, EC2Y 9HX

Shareholder enquiries: 0870 703 0103

Financial diary – 2004/5 (dates subject to confirmation)

5 May	Results announcement
12 May	Ex dividend date for final dividend
14 May	Record date for final dividend
15 June	AGM at Queen Elizabeth II Conference Centre
16 July	Payment of final dividend
2 September	Half year end
28 October	Announcement of half year results
3 November	Ex dividend date for interim dividend
4 January 2005	Payment of interim dividend
3 March 2005	End of financial year

Share dealing services

Organisation	Telephone	Address	Online
Barclays Stockbrokers	0845 702 3021	Barclays Stockbrokers, Tay House, 300 Bath Street, Glasgow, G2 4LH	www.stockbrokers.barclays.co.uk
Computershare Investor Services	0870 703 0084	Computershare Investor Services, PO Box 82, The Pavilions, Bridgewater Road, Bristol, BS99 7NH	www.computershare.co.uk
NatWest Stockbrokers	0870 600 2050	NatWest Stockbrokers, PO Box 549, Leeds, LS1 4WN	www.natweststockbrokers.co.uk
Stocktrade	0845 840 1533 (quote ref: Low Co0101)	Stocktrade, PO Box 1076, 10 George Street, Edinburgh, EH2 2PZ	www.stocktrade.co.uk/whitbread/index.html

These details have been provided for information only and any action you take is at your own risk. If you are in any doubt about what action to take, please consult your own financial adviser. Should you not wish to use these services you could find a broker in your local area, on the internet or enquire about share dealing at any high street bank or building society. The availability of these services should not be taken as a recommendation to deal.

Whitbread PLC

CityPoint
One Ropemaker Street
London
EC2Y 9HX

www.whitbread.co.uk

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