RNS Number : 6249Q
Whitbread PLC
22 October 2019

## Strong strategic progress in challenging market conditions

- Strong strategic progress in the UK with 90,000 open + committed rooms and new format trials
- Activity underway to enhance and optimise the hotel network
- Accelerating Germany network to almost 8,000 open + committed rooms, inc. second acquisition
- Good progress on efficiency programme partially offset weaker trading conditions and high industry inflation
- Capital return programme successfully completed, returning £2.5 billion to shareholders

### Financial highlights

| | H1 FY20 | H1 FY19 (Restated)* | *Change* |
|---|---|---|---|
| Adjusted revenue† | £1,078m | £1,079m | *(0.1)%* |
| Adjusted EBITDAR† | £427m | £448m | *(4.8)%* |
| Adjusted profit before tax (Pre-IFRS 16)† | £251m | £266m | *(5.6)%* |
| Adjusted profit before tax (Post-IFRS 16)† | £236m | £246m | *(4.1)%* |
| Adjusted basic EPS† | 113.0p | 107.2p | *5.4%* |
| Statutory profit for the period (excl. Costa in H1 FY19) | £172m | £187m | *(8.1)%* |
| Statutory basic EPS | 104.3p | 102.4p | *1.9%* |
| Interim dividend | 32.7p | 32.7p | - |
| Cash generated from operations (Pre-IFRS 16) | £275m | £455m | *n.m* |
| Discretionary free cash flow (H1 FY19 includes Costa)† | £197m | £283m | *n.m* |
| Capital expenditure | £197m | £212m | *£(15)m* |
| UK return on capital† | 12.1% | 13.3% | *(120)bps* |
| Return on capital† | 10.8% | 12.4% | *(160)bps* |

All measures are presented for the continuing business unless otherwise stated with the exception of cash generated from operations and discretionary cash flows; H1 FY19 has been restated for sale of Costa and pension interest; † signifies an alternative performance measure (APM) - see the Financial Review of this statement and Notes to the accompanying financial statements for further details including new APMs introduced

- Revenue broadly flat at £1,078 million, supported by contribution from new capacity
- Total UK accommodation sales declined (0.6)% and like-for-like † accommodation sales declined (3.6)%, impacted by continued weak regional market conditions
- Adjusted profit before tax decreased by (4.1)% in-line with like-for-like sales decline, a decrease in operating margin offset with a benefit from lower finance costs
- Continued disciplined cost management delivering ongoing efficiency benefits
- Statutory profit for the period (incl. Costa in H1 FY19) decreased from £234 million by (26.3)% to £172 million in-line with adjusted profit before tax and due to the sale of Costa, contributing to £47 million of profit in H1 FY19
- Discretionary free cash flow of £197 million (H1 FY19 includes Costa)
- Reduction in return on capital to 10.8% due to weaker market conditions and capital investment
- Retained strong balance sheet following completion of £2.5 billion capital return programme

*Alison Brittain, Whitbread Chief Executive Officer, commented:*

"We have delivered a resilient first half profit performance despite challenging market conditions in the UK. Shorter-term trading conditions in the UK regional market have been difficult, particularly in the business segment where we have a higher proportion of our revenue, whilst trading in London remained strong. Against this challenging backdrop, we have a number of activities underway which continue to build our brand strength as the UK's favourite hotel chain[2].

We are enhancing and optimising our UK hotel network and have successfully trialled new higher specification 'Premier Plus' rooms in two hotels, with fantastic customer feedback. We are on track to have 500 Premier Plus rooms this year, with ambitions for a total of 2,000 over the next year. We have also made good progress in delivering our ambitious efficiency targets, helping to offset part of the ongoing industry-wide inflation.

In Germany, our confidence in the long term opportunities grows and our expansion plans are firmly on target. Our German pipeline has increased 25% to 7,280 rooms over the last year and we continue to look for ways to accelerate our ambitions. We have opened new organic hotels in Hamburg and Munich, which are both performing well and we are also making good progress in preparation for completing the 19 hotel acquisition in February 2020, with 13 hotels to be rebranded to Premier Inn in the first half of next year.

Whilst the near-term market conditions in the UK remain uncertain, we have confidence in the long-term structural opportunities available in the domestic budget travel markets in the UK and Germany. Following successful completion of our return of surplus capital programme, we still have a strong balance sheet, providing support for ongoing disciplined deployment of capital, which will deliver growth over the longer term."

### Update on the market and outlook

Market conditions in the UK continue to be challenging with business confidence remaining weak and leisure confidence in decline, coinciding with heightened political and economic uncertainty, which has continued into the third quarter of FY20. This has impacted hotel domestic demand, particularly in the regional market, where 80% of Premier Inn hotels are located. There has also been a greater decline in short-lead discretionary bookings, which tend to be at higher price points.

With this uncertainty, it is difficult to predict how business confidence and business investment will evolve in the second half of FY20 and into FY21 and impact demand for short-stay, domestic travel. Whitbread's guidance for FY20 results is detailed further in this statement, with guidance given in April 2019 for costs, efficiency savings, investment in Germany and revenue sensitivity remaining unchanged.

Trading conditions in the UK hotel market will continue to be monitored closely.

However, as outlined at Whitbread's Capital Markets Day in February 2019, there remains significant long-term opportunities in both the UK and Germany, which can be accessed due to Whitbread's strong financial position, strong cash generation and disciplined capital allocation.

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*Footnotes and definitions are contained immediately prior to the financial statements.*

*For images and video please visit Whitbread's media library at www.whitbread.co.uk/media.*

*A presentation for investors and analysts will be held at 9.30am on 22 October 2019 at UBS, 5 Broadgate, London, EC2M, 2QS. A webcast of the presentation will be available live and on-demand through Whitbread's website (www.whitbread.co.uk/investors).*

## **Strategic update** | A focused, fully integrated, international hotel business

### Whitbread's long-term plans for value creation in the UK and internationally

Whitbread is now a focused, vertically-integrated hotel business with over 79,000 rooms in the UK, Germany and the Middle East, operating under the Premier Inn brand. Premier Inn aims to continue to be the world's best budget hotel business with the following highlights:

- consistently ranked and voted as the UK's favourite hotel[2];
- delivers best-in-class operational performance; and
- track record of strong financial performance over the long-term.

Whitbread's strategic priorities will remain consistent with its proven plan to create sustainable shareholder value over the long-term. Whitbread will achieve long-term growth in earnings and dividends, combined with strong return on capital through disciplined execution in the three key areas:

1. continuing to grow and innovate Premier Inn in its core UK business;
2. focusing on Premier Inn's strengths to grow at scale internationally; and
3. enhancing the capabilities of Whitbread to support long-term growth.

### Resilient financial progress during the period

The continuing operations of Whitbread delivered a resilient financial performance during the first half of the year. Revenue was flat at £1,078 million supported by capacity additions. Adjusted profit before tax (excluding Costa) decreased (4.1)% to £236 million, driven by investment in Germany, the sustained high rate of industry-wide inflation and the weaker UK travel market conditions, particularly in the regions.

The UK regional market was challenging with lower demand for short-stay, domestic travel, which coincided with declines in business and consumer confidence. Premier Inn's performance was impacted more than the market, reflecting a higher regional presence and a higher proportion of domestic and business customers. The London market was strong and improved in the second quarter primarily due to the growth of international travel.

Profit before tax was supported by the ongoing efficiency programme with £25 million delivered in the first half and lower finance costs. Statutory profit for the period declined (8.1)% to £172 million, which was a greater decline than Adjusted profit before tax due to higher adjusted items in H1 FY20 of £16 million.

Return on capital for the UK declined from 13.3% by (120)bps to 12.1% due to lower profitability and further capital investment in the UK. Total return on capital declined from 12.4% by (160)bps to 10.8%, due to ongoing capital investment in Germany, the weaker UK market conditions and sector-wide inflation.

### FY20 outlook

Whitbread is confident in its plans given the significant structural growth opportunities in the UK and internationally. Whitbread's strong balance sheet and disciplined approach to capital allocation enable investment to capitalise on these structural opportunities. However, the UK environment has been increasingly challenging and sustained industry inflation continues. It remains difficult to know how business confidence and its impact on the market will evolve. Given Whitbread's strong balance sheet, efficiency programme and robust business model, it is in a strong position compared to many competitors.

Whitbread's FY20 planning assumptions remain similar to those presented at the FY19 Full Year Results in April 2019. The assumptions for the year are as follows:

- Uncertain UK economic & political environment leading to sustained weak hotel demand, especially relating to business customer demand in the regions.

- Whitbread's business model has a relatively high degree of operating leverage. This leads to every 1 percentage point movement in RevPAR impacting Profit before tax by £12-15 million.

- Total new capacity of approximately 5,000 new rooms comprising:
  - approximately 3,000 gross new rooms in the UK;
  - approximately 2,000 new rooms in Germany;
  - committed pipeline UK 12,928 rooms (H1 FY19 13,385 rooms); and
  - committed pipeline Germany 7,280 rooms (H1 FY19 5,833 rooms).

- Net margin headwind of around £45 million in FY20 as stated within the FY19 Results announcement comprising:
  - good progress with efficiency programme delivering £40-50 million;
  - margin and inflation leading to £70 million higher costs;
  - operational dis-synergies following the sale of Costa of £10 million; and
  - Germany losses of £12 million in FY20, up from £8 million in FY19.

- Capital investment this year is expected to be £600-700 million comprising:
  - investing £150 million in maintenance and improvement;
  - investing £150-200 million in new capacity in the UK; and
  - investing £300-350 million in new capacity in Germany including the acquisition of the Foremost hotels at the end of FY20.

### Completion of the return of capital following sale of Costa to The Coca-Cola Company

Following the sale of Costa Limited to The Coca-Cola Company for £3.9 billion, which completed in January 2019, Whitbread announced its plans to return £2.5 billion surplus capital to shareholders. The first phase was a share buyback programme conducted from 17 January 2019 to 10 May 2019. This first phase completed with a total of £486 million of Ordinary Shares repurchased. Of this amount £316 million of Ordinary Shares were repurchased in H1 FY20.

The second phase was a tender offer, which resulted in £2 billion of Ordinary Shares being repurchased in July 2020. The completion of the tender offer resulted in a total of £2.5 billion being returned to shareholders and the repurchase and cancellation of 49 million shares. There is currently no further surplus capital to be returned to shareholder, beyond the ongoing dividend policy.

## 1. Innovate and grow in the core UK market

- Total UK revenue broadly flat at £1,074 million driven by capacity addition
- Reduction in occupancy reflecting the weak market and capacity addition
- Industry-leading direct distribution rate of 98%, an improvement year-on-year
- Successful trial of Premier Plus rooms underway

***Premier Inn UK estate metrics***

| | H1 FY20 | H1 FY19 | *Change* |
|---|---|---|---|
| # hotels | 810 | 795 | *1.9%* |
| # rooms | 76,837 | 74,070 | *3.7%* |
| Direct booking | 98% | 97% | *100bps* |
| Occupancy | 78.3% | 80.1% | *(180)bps* |
| Average room rate | £64.07 | £66.16 | *(3.2)%* |
| Revenue per available room† | £50.19 | £52.97 | *(5.2)%* |
| Total accommodation sales growth | (0.6)% | 4.8% | |
| Like-for-like accommodation sales growth | (3.6)% | 0.2% | |
| Total food & beverage sales growth | 0.6% | (0.8)% | |
| Like-for-like food & beverage sales growth | (1.2)% | (2.6)% | |
| UK return on capital | 12.1% | 13.3% | *(120)bps* |
| Committed pipeline (rooms) | 12,928 | 13,385 | |

Premier Inn UK total accommodation sales declined by (0.6)% driven by the weak regional market conditions, offset by the contribution from capacity additions. Declines in like-for-like accommodation sales was a combination of both occupancy and average room rate. The weakness in both business and leisure consumer demand continued in the second quarter, especially in the regions, where total accommodation sales declined by (1.7)% and RevPAR declined (5.9)%. In London, Premier Inn's total accommodation sales growth was strong in the second quarter at 7.6%, driven by around 4,000 room additions over the last three years which continue to mature.

Premier Inn consistently achieves market leading combined customer quality and value scores [2] as a result of the focus placed on elements of the experience that matter most to guests. Many of Premier Inn's customers visit multiple hotels every year and therefore value a consistently high quality experience across the network of over 800 hotels. Although the near-term market is challenging, investment in the existing estate will continue given the scale of the longer term opportunity to win market share from the fragmented independent sector.

During a period of more challenging market conditions, capital allocation can be prioritised to focus more on opportunities with more immediate benefits. To further enhance the customer experience, we have been trialling Premier Plus rooms in a number of hotels. These upgraded rooms are targeted especially at business customers and provide an even more comfortable stay at great value for money. The trial has been successful and we will now roll out around 2,000 Premier plus rooms over the next year.

Premier Inn's 98% direct distribution is industry-leading and crucial to the unique operating model, providing customers with superior value for money. It also ensures that Premier Inn's gross RevPAR is the same as the net RevPAR achieved after cost of sales, unlike independents or other brands, which pay high commission rates to third parties such as online travel agents. The investment made in digital tools, including the website and digital marketing capabilities, results in a higher quality of revenues achieved.

During the first half of the year, Premier Inn opened a further nine hotels including a hub hotel in the City of London. The UK hotel network is now around 77,000 rooms with an industry-leading level of direct bookings at 98%.

## 2. Focus on Premier Inn's strengths to grow internationally

***Premier Inn Germany*** | *Increasing capabilities to build a strong hotel network*

The first half of the year saw positive performance in both Frankfurt and the new hotel in Hamburg. Similar to the success in Frankfurt, occupancy in Hamburg has matured beyond expectations now reaching over 70%. The pipeline since the end of the last financial year has also increased by c.25% to around 7,300.

Premier Inn's aim in Germany is to leverage the strengths and capabilities of the UK business to create the number one budget brand in the structurally attractive German hotel market. This includes the same flexible approach to property to gain superior site access, encouraging direct distribution and delivering a best-in-class value for money proposition.

The German hotel market is a third larger than the UK and even more fragmented, with almost three-quarters of the market still consisting of small independent operators, which are experiencing a structural decline to the benefit of branded hotels. Despite this, the branded

budget hotel sector still only represents an 8% market share, compared to 27% in the UK, as franchise operators have historically struggled to expand with limited property financing options available. Consequently, Premier Inn's vertically integrated model and willingness to invest capital in expansion provides a strong advantage in the budget market, supported by replicating the strong quality and value credentials from the UK.

This strategy has proved successful in Germany's first Premier Inn hotel in Frankfurt, with a mature level of rate and occupancy achieved in line with expectations, alongside market-leading customer satisfaction scores. Two further hotels have recently been opened in Hamburg and Munich and early results are very encouraging. Hotel guests are a good mix of business and leisure and a high proportion of guests are domestic German travellers. A further 20 hotels are due to open by the end of 2020 including the recently announced the acquisition of a further three hotels from an independent operator.

The property team continues to explore options to further accelerate growth in Germany, through a mix of freehold property developments, leasehold sites and acquisitions of small to medium existing hotel portfolios. The previously announced acquisition of 19 hotels from Foremost Hospitality Group is expected to complete in February 2020, with 13 hotels opening around the end of FY20, representing an important step in growing the German network. The acquisition is expected to deliver returns in excess of Whitbread's cost of capital and be earnings enhancing the year after completion.

The pipeline of new capacity in Germany is a mix of hotels to be acquired and the organic pipeline of new leasehold and freehold sites:

| ***Premier Inn Germany network*** | **Organic** | **To be acquired** | **Total** |
|---|---|---|---|
| Open and trading | 3 hotels *(590 rooms)* | 17 hotels *(2,770 rooms)* | **20 hotels *(3,360 rooms)*** |
| Committed pipeline | 18 hotels *(3,690 rooms)* | 5 hotels *(820 rooms)* | **23 hotels (4,510 rooms)** |
| **Total** | **21 hotels *(4,280 rooms)*** | **22 hotels *(3,590 rooms)*** | **43 hotels *(7,870 rooms)*** |

Given the scale and attractive nature of the opportunity in Germany, alongside encouraging performance to date, Whitbread has increased investment to accelerate the pipeline and to prepare the business for a significant number of hotel openings over the next few years. These investments include marketing costs, set-up costs and putting more people on the ground, especially in the acquisitions team.

***Premier Inn Middle East***

Premier Inn in the Middle East continues to operate in tough market conditions, with a high level of new capacity being added in advance of the World Expo in Dubai in 2020. Premier Inn has a productive partnership with Emirates, with a new hotel recently opened in Al Jadaf, bringing the total to eight hotels.

## 3. Enhancing Whitbread's capabilities to support long-term growth

Whitbread continues to leverage its scale to secure cost efficiencies, largely offsetting the structural cost pressures in the hotel market, which disproportionately impact the independent sector. This focus on cost, along with Whitbread's property expertise, underpins the consistent quality and competitive advantage enjoyed by Premier Inn.

Following the early completion of the sale of Costa, in January 2019, the organisation structure of Whitbread has been refined and simplified to reflect the focus on the hotel market in the UK and Germany. This has resulted in cost savings being delivered in FY20, alongside enhancements to customer insight and decision making.

Further progress has also been made on separating Costa from Whitbread; a process that is due to complete earlier than expected. Many of the shared services teams and supplier contracts have already been separated, with the main focus now on remaining technology systems and HR services. Whilst work is being conducted to minimise dis-synergies arising from the separation, these are expected to be approximately £10 million in FY20.

***Vertically-integrated model***

Whitbread has conducted a rigorous review of its unique, vertically-integrated model, which combines the ownership of property, hotel operations, the brand and inventory distribution. Over the last 15 years, this unique approach has enabled Premier Inn to grow at a significantly faster pace than competitors, deliver a consistently superior customer experience and generate a strong return on capital for shareholders. Given the scale of the opportunity to invest in new hotel capacity in the UK and Germany, Whitbread believes its unique vertically-integrated model is the optimal approach to both access this growth opportunity and create sustainable value for shareholders over the long-term.

Property flexibility is an integral part of this unique model. Through detailed network planning and disciplined investment in attractive freehold and leasehold hotels, Premier Inn has become the largest hotel network in the UK. The freehold property estate was valued in 2018 at £4.9-5.8 billion. This valuation was based on single and incremental sale and leaseback transactions, with a yield range of 4.5-5.0%, a rent cover of 2.25-2.40 times, and included £400 million net assets under construction and non-trading.

***Everyday efficiency***

In 2016, Whitbread began a five-year programme to generate £150 million of efficiency savings and mitigate inflationary cost pressures. This ambition was achieved in less than three years from a combination of procurement benefits and shared services, across both Premier Inn and Costa. Whitbread now aims to generate a further £220 million of savings over the next three years, which comprises £120 million of operational savings and £100 million of capital expenditure saving. In the first half of the year, £25 million of operational efficiency savings has been delivered and £45 million is on track to be delivered for the full year.

***Improving technology capabilities***

Over the last three years, Whitbread has undergone a significant investment programme to improve the core technology infrastructure, internal support systems and customer facing systems in Premier Inn. This year, there has been a focus on enabling an improvement in the customer booking journey and being more agile in adapting the website to changing customer demands. In addition, Whitbread will retain focus on the complex process of upgrading legacy customer reservation and inventory management systems in Premier Inn and integrating the new hotels in Germany onto Whitbread's platform.

***Property expertise***

Property expertise remains an important driver of success for Premier Inn. A willingness to be flexible with respect to freehold or leasehold acquisition ensures new sites are in the best locations, and have the optimal size and format. Ownership of around two-thirds of the hotel estate also provides a significant competitive advantage as it gives Premier Inn control over the initial development of the hotel, and subsequently how it is maintained, extended, or re-developed. This will continue to provide further opportunities to optimise the network by individual asset, as well as more broadly through catchment optimisation and creating a more optimal portfolio of assets.

Whitbread's asset-backed balance sheet also supports a strong financial covenant, which means that in competitive bid situations for new

leasehold developments, Premier Inn is often the preferred tenant and can secure more favourable lease and rental terms. Freehold ownership also reduces earnings volatility through the cycle and provides a flexible source of funding for the future, for example, through sale and leaseback transactions.

***A Force for Good***

Whitbread's sustainability programme, Force for Good, ensures that being a responsible business is integrated throughout the way Whitbread operates, by supporting its guests, local communities, team members and suppliers to live and work well. The 2019 Dow Jones Sustainability Index (DJSI) score ranked Whitbread as second in the European Travel & Leisure industry, for the second year in a row. Whitbread also ranked third in an ESG survey on sustainability completed by Sustainalytics measuring 113 companies across consumer services. These are excellent results that highlight the depth and breadth of Whitbread's work and commitment to become a more sustainable business.

Whitbread's 'Opportunity' strategy aims to ensure everyone can reach their potential. This includes removing barriers to entry and promoting inclusivity and diversity throughout the organisation as well as leading training and development schemes. Investment continues in the Whitbread apprenticeship programme with the creation of over 10,000 employment opportunities, including more than 3,000 full time apprenticeships and 4,000 work experience placements.

Through the 'Community' strategy, Whitbread has been supporting Great Ormond Street Hospital since 2012. During this time over £15 million has been raised, facilitating the opening of a new 'Premier Inn Clinical Building'. Premier Inn has pledged to raise a further £10 million towards building a ground-breaking new sight and sound centre due to open in 2020, which will provide a world-class facility for children with sight and hearing problems. Whitbread provides customers with informed menu choices and delivers a nutritious strategy that supports the Government's aims to tackle childhood obesity. Progress towards Public Health England's sugar reduction target of 20% by 2020 is underway in relevant food categories and so far, Beefeater has achieved 25% and Brewers Fayre 29% sugar reduction in the desserts range.

As part of Whitbread's commitment to operate in a responsible way, respecting people and planet, all hotels and restaurants in the UK are all powered by 100% renewable energy, and over 20% of hotels have electricity generating solar panels. Premier Inn is also the largest hospitality company in Europe to set a science-based carbon reduction target. This target will see the business reduce its carbon emissions by 50% by 2025. Operating a traceable and sustainable supply chain is vital for the hospitality industry and Whitbread has been recognised by NGO Development International as the leading accommodation provider in the FTSE 100 for compliance and conformance with the UK Modern Slavery Act and good practice in human rights.

## **Financial review** | Resilient financial performance

- Revenue held broadly flat at £1,078 million, supported by capacity additions
- The ongoing efficiency programme and lower finance costs due to the Costa proceeds supported adjusted profit before tax, which declined (4.1)% to £236 million due to a weaker UK market and sector-wide inflation
- Statutory profit before tax declined (7.1)% to £220 million
- Good cash generation with discretionary free cash flow at £197 million
- Return on capital declined (160)bps to 10.8% driven by the investment in Germany, the weaker UK market conditions and sector-wide inflation
- £2.5 billion returned to shareholders from the proceeds of the sale of Costa

***Financial highlights (post-IFRS 16)****

| | **H1 FY20** | **H1 FY19** *(Restated)** | ***Change*** |
|---|---|---|---|
| **Adjusted revenue**† | **£1,078m** | **£1,079m** | *(0.1)%* |
| Operating costs excl depreciation & amortisation | £(651)m | £(631)m | *(3.3)%* |
| **Adjusted EBITDAR**† | **£427m** | **£448m** | ***(4.8)%*** |
| Depreciation & amortisation | £(81)m | £(79)m | *(1.3)%* |
| IFRS16 right of use asset depreciation | £(50)m | £(48)m | *(4.1)%* |
| **Adjusted operating profit**† | **£296m** | **£321m** | ***(7.7)%*** |
| Adjusted net finance costs† | £(3)m | £(19)m | *81.0%* |
| IFRS16 lease interest | £(57)m | £(56)m | ***(1.8)%.*** |
| **Adjusted profit before tax**† | **£236m** | **£246m** | ***(4.1)%*** |
| Adjusting items | £(16)m | £(9)m | *n.m.* |
| **Statutory profit before tax** | **£220m** | **£237m** | ***(7.1)%*** |
| Tax | £(48)m | £(50)m | *3.4%* |
| **Profit for the year excluding Costa** | **£172m** | **£187m** | ***(8.1)%*** |
| Profit from discontinued operations | - | £47m | *n.a* |
| **Profit from the year including Costa** | **£172m** | **£234m** | ***(26.3)%*** |

*All numbers include IFRS 16 impact or specified where separate; measures excluding Costa represent continuing operations; H1 FY19 has been restated for sale of Costa and pension interest

†***Alternative performance measures***

Adjusted and alternative performance measures (APMs) are used to provide both management and external stakeholdeders with useful additional information about the financial performance of the Group's businesses.

Adjusted measures of profitability represent the equivalent IFRS measures adjusted for specific items that management consider relevant for comparison of the financial performance of the Group's businesses either from one period to another or with other similar businesses.

APMs are not defined by IFRS and therefore may not be directly comparable with similarly titled measures reported by other companies. APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measures. Further details on APMs may be found in the Notes to the accompanying financial statements and the glossary at the end of this document.

## **Operating performance** | Resilient results delivered in challenging market conditions

- Revenue held broadly flat at £1,078 million, supported by capacity additions
- London accommodation total sales growth of 4.5% driven by new capacity additions
- Regional accommodation total sales decline by (2.0)% due to challenging market conditions
- UK return on capital of down (120)bps from 13.3% to 12.1% due to first half sales performance and cost increases partly offset by cost efficiencies

### *Financial highlights (pre-IFRS 16)**

| | H1 FY20 | H1 FY19 (Restated) | *Change* |
|---|---|---|---|
| **Adjusted revenue†** | **£1,078m** | **£1,079m** | **(0.1)%** |
| UK | £1,074m | £1,077m | (0.3)% |
| Germany | £4m | £2m | *n.m.* |
| Middle East | £0m | £0m | *n.m.* |
| **Adjusted EBITDAR†** | **£427m** | **£448m** | **(4.8)%** |
| Rent* | £(91)m | £(83)m | (9.7)% |
| **Adjusted EBITDA†** | **£336m** | **£365m** | **(8.1)%** |
| UK | £343m | £369m | (7.2)% |
| Germany | (£5)m | (£3)m | *n.m.* |
| Middle East^ | (£2)m | (£1)m | *n.m.* |
| **UK return on capital*** | **12.1%** | **13.3%** | ***(120)bps*** |
| ***Other metrics*** | | | |
| UK accommodation total sales growth | (0.6)% | 4.8% | |
| UK F&B total sales growth | 0.6% | (0.8)% | |
| Total UK sales growth | (0.2)% | 2.8% | |
| H1 UK accommodation like-for-like sales growth | (3.6)% | 0.2% | |
| H1 UK F&B like-for-like sales growth | (1.2)% | (2.6)% | |
| Q2 UK accommodation like-for-like sales growth | (2.7)% | 0.7% | |
| Q2 UK F&B like-for-like sales growth | (0.3)% | (3.3)% | |

*Pre-IFRS 16 adjustments; ^EBITDA for Middle East represents the share of losses from a joint-venture operation; H1 FY19 has been restated for the sale of Costa and pension interest; rent = property rent, turnover rent, car leases & rental income

Premier Inn in the UK held revenue broadly flat at £1,074 million and EBITDA decreased by (7.2)% to £343 million. In London, Premier Inn grew total accommodation sales by 4.5% in the first half and 7.6% in the second quarter. This was ahead of the midscale and economy hotel market[3], due to the contribution of around 4,000 new rooms added in London over the last three years. In the regions, Premier Inn total accommodation sales decreased by (2.0)% in the half, which was behind the midscale and economy hotel market[3] which declined at (1.1)% over the same period.

Total Premier Inn like-for-like RevPAR declined by (5.0)% in the half, compared to the midscale and economy market RevPAR which was down (2.4)%, reflecting the greater weighting Premier Inn has in the weaker regional and higher rate business market and the short-term impact that significant capacity addition has on the current estate. Declines in like-for-like RevPAR was a combination of both occupancy and average room rate.

Return on capital for the UK was down (120)bps year on year to 12.1% due to the high inflation in the sector and the weak market conditions. Return on capital for the group was 10.8% including investments in Germany.

### *UK accommodation sales growth comparison*

| | H1 FY20 | Q2 FY20 | Q1 FY20 |
|---|---|---|---|
| ***London*** | | | |
| Premier Inn | 4.5% | 7.6% | 1.0% |
| Midscale and economy hotel market[3] | 5.3% | 7.1% | 3.3% |
| **London performance** | **(80)bps** | **50bps** | **(230)bps** |
| ***Regions*** | | | |
| Premier Inn | (2.0)% | (1.7)% | (2.2)% |
| Midscale and economy hotel market[3] | (1.1)% | (0.6)% | (1.8)% |
| **Regions performance** | **(90)bps** | **(110)bps** | **(40)bps** |
| ***Total UK*** | | | |
| Premier Inn | (0.6)% | 0.1% | (1.5)% |
| Midscale and economy hotel market[3] | 0.7% | 1.5% | (0.3)% |
| **Total UK performance** | **(130)bps** | **(140)bps** | **(120)bps** |

Whitbread's food and beverage offer is integral to the hotel operations, performance and guest experience. Total revenue grew by 0.6% year-on-year, but like-for-like sales decreased by (1.2)% (H1 FY19: (2.6)%) due to a continuing subdued casual dining market.

Premier Inn's expansion in Germany continues in line with plans. Planned investment in Germany to extend the pipeline, open new hotels and integrate the Foremost Hospitality acquisition as previously announced will result in a loss of approximately £12 million in Germany in FY20.

The Premier Inn business in the Middle East is operated through a joint-venture with Emirates. In a challenging market, with significant new supply additions, losses in the Middle East were in-line with expectations at £2 million, due to the timing of new openings.

### *Adjusting items*

Total adjusting items before tax were £16 million. Of this total, £8 million relates to the disposal and separation of Costa. In addition, following a fire at a hotel in Bristol, an impairment of £10 million has been recognised, offset by the related anticipated insurance claim proceeds of £16 million covering property and loss of trade in other income. There was also an write-of and impairment charge of £13 million against IT intangible assets and hotels held for sale. Further detail on adjusting items can be found in Note 4 of the accompanying financial statements.

### *Net finance costs*

Adjusted net finance costs for the first half of the year were £61 million, including £57 million for IFRS 16 lease interest. This was £15 million lower than the prior period due to higher interest received on the cash balance held from the sale of Costa proceeds and elimination of the pension finance cost, resulting from the pension moving to a surplus. Further details are contained in Note 5 of the accompanying financial statements.

### *Taxation*

Adjusted tax for the first half of the year is £49 million, with an effective tax rate of 20.8%. The statutory tax expense was £48 million.

### *Earnings per share*

| | H1 FY20 | H1 FY19 | *Change* |
|---|---|---|---|
| **Continuing operations** | | | |
| Adjusted basic earnings per share | 113.0p | 107.2p | *5.4%* |
| Statutory basic earnings per share | 104.3p | 102.4p | *1.9%* |

Adjusted basic earnings per share increased 5.4% to 113.0p, benefitting from the reduction in the weighted average number of ordinary shares, following the share buyback programme and tender offer. Full details are set out in Note 7 and Note 12 of the accompanying financial statements.

### *Dividend*

Whitbread's dividend policy is to grow the dividend broadly in line with earnings across the cycle. An interim dividend of 32.7 pence per share (H1 FY19: 32.7p), flat versus last year, amounting to £44 million, was declared by the Board on 21 October 2019. Full details are set out in Note 8 to the financial statements. The dividend will be paid on 13 December 2019 to all shareholders on the register at the close of business on 8 November 2019. Shareholders will again be offered the option to participate in a dividend re-investment plan.

### **Cash generation (Pre-IFRS 16)** | Consistent & strong to fund investments

| | H1 FY20 | H1 FY19 Including Costa |
|---|---|---|
| **Adjusted EBITDAR**† | **£427m** | **£609m** |
| Total rent[(a)] | £(91)m | £(147)m |
| Depreciation and amortisation | £(81)m | £(118)m |
| **Adjusted operating profit**† | **£255m** | **£344m** |
| Depreciation and amortisation | £81m | £118m |
| Other non-cash items | £1m | £10m |
| Change in working capital | £(11)m | £(17)m |
| Transaction and separation costs[(b)] | £(51)m | - |
| **Cash generated from operations** | **£275m** | **£455m** |
| Maintenance capital expenditure | £(78)m | £(118)m |
| Interest | £2m | £(10)m |
| Tax | £(2)m | £(44)m |
| **Discretionary free cash flow** | **£197m** | **£283m** |
| Pension[(c)] | £(277)m | £(46)m |
| Dividends | £(116)m | £(128)m |
| Expansionary capital expenditure | £(119)m | £(150)m |
| Shares purchased in share buybacks | £(2,328)m | - |
| Other | £(18)m | £(9)m |
| **Net cash flow** | **£(2,661)m** | **£(48)m** |
| Opening net (cash) / debt | £(2,583)m | £833m |
| **Closing net (cash) / debt** | **£78m** | **£881m** |

All numbers are reported on a pre-IFRS 16 basis; (a) Total rent includes property, car leases, rental income & other rent; (b) £51m of costs associated to the timing of payments relating to the sale of Costa; (c) Includes the second phase of the one-off pension settlement of £274 million

### **Capital investment** | Compelling opportunities to invest at a strong return on capital

| | H1 FY20 | H1 FY19* | *Last 2 years* |
|---|---|---|---|
| Maintenance and product improvement | £78m | £95m | £276m |
| New / extended UK hotels | £71m | £87m | £402m |
| Premier Inn Germany & Middle East | £48m | £30m | £177m |
| **Total** | **£197m** | **£212m** | **£855m** |

*H1 FY19 excludes discontinued operations

Capital expenditure in H1 FY20 was £197 million (H1 FY19: £212 million). Investments in new and extended hotels mature over a 1-4 year period and deliver mature return on capital between 12% and 14%. In the last two years, £402 million has been invested in expanding the UK network with a further £177 million invested in the organic pipeline in Germany and the Middle East. Maintenance capital expenditure in Premier Inn is essential to ensure consistent, high quality rooms across the estate which is a key driver of repeat direct business. Maintenance capital spend was £78 million and is expected to be approximately £150 million in FY20.

Capital expenditure for Premier Inn Germany does not reflect any amounts for the announced agreement to acquire a portfolio of 19 hotels, which will be paid on completion of the transaction, which is expected to be in February 2020. The total cost of the transaction and costs relating to conversion to Premier Inn are expected to be around £300 million, with around £200 million due in FY20 and the remaining payments made on the opening of the six pipeline hotels.

### **Capital discipline** | Asset-backed balance sheet provides flexibility

| | H1 FY20* | FY19 | H1 FY19 |
|---|---|---|---|
| **Funds From Operations (FFO)**†* | **£659m** | **£902m** | **£953m** |
| Adjusted net (cash) / debt† | £88m | £(2,573)m | £890m |
| Lease debt (8x rent)† | £1,404m | £2,193m | £2,316m |
| **Lease-adjusted net (cash) / debt**† | **£1,492m** | **£(380)m** | **£3,206m** |

| | | | |
|---|---|---|---|
| Freehold / leasehold mix | 61:39% | 62:38% | 63:37% |
| Lease-adjusted net debt : FFO† | 2.3x | (0.4)x | 3.4x |
| Fixed charge cover† | 3.1x | 2.9x | 2.8x |

*H1 FY20 funds from operations excludes the first and second phase of the accelerated pension settlement of £107 million & £274 million

Whitbread has retained its strong financial position and has access to a broad source of funds at attractive rates, in order to take advantage of freehold property and acquisition opportunities as they arise, such as the agreed acquisition of 19 hotels in Germany that will complete in February 2020. Maintaining a prudent leverage position also ensures that Whitbread retains a strong covenant for further leasehold expansion in the UK and Germany.

Sufficient headroom in debt funding facilities is also in place to finance short and medium-term requirements, with total committed facilities of approximately £1.8 billion. Committed debt facilities include US Private Placement loans of £359 million (at the hedged rate), a £450 million bond and a syndicated bank revolving credit facility ("RCF") of £950 million.

### *Pension*

The pension fund had a surplus of £222 million (H1 FY19: £(162) million). This followed Whitbread's agreement with the Trustee of its defined benefit pension scheme, the Whitbread Group Pension Fund (the "Pension Fund") following the sale of Costa. The agreement released Costa from its obligations to the Pension Fund and involved a one-off contribution to the Pension Fund of £381 million together with some contingent protection, which has enabled the Trustee to significantly reduce the Pension Fund's investment risk. This replaced the previous protection and previously agreed deficit recovery plan, which would have required Whitbread to make total payments of £326 million to the Pension Fund over the next four years. Additional contributions to the Pension Fund of approximately £10 million per year will continue to be made through the Scottish Partnership arrangements. Of the £381 million one-off contribution, £107 million was paid in FY19, with the remaining £274 million paid in H1 FY20.

## **Return on capital** | Consistently delivering above cost of capital

| | H1 FY20 | H1 FY19 | Change |
|---|---|---|---|
| Total ROCE† | 10.8% | 12.4% | *(160)bps* |
| **UK ROCE†** | **12.1%** | **13.3%** | ***(120)bps*** |
| Impact on the Group of capital invested for future openings | (90)bps | (120)bps | *30bps* |

During the half, Whitbread's return on capital declined by (160) basis points to 10.8%. This decline was attributable to like-for-like performance and investment in the UK estate offset by capacity additions (100 basis points of the decline), inflation which is offset by the efficiency programme (20 basis points of the decline) and incremental capital invested in Germany (40 basis points of the decline).

There is currently £278 million of capital invested for future openings. This has an impact on Whitbread's continuing reported return on capital of 90 basis points.

## **Surplus capital** | Successful completion of return of capital programme

Following the sale of Costa Limited to The Coca-Cola Company for £3.9 billion, which completed in January 2019, Whitbread announced its plans to return £2.5 billion surplus capital to shareholders. The first phase was a share buyback programme conducted from 17 January 2019 to 10 May 2019. This first phase completed with a total of £486 million of Ordinary Shares repurchased. Of this amount £316 million of Ordinary Shares were repurchased in H1 FY20.

The second phase was a tender offer, which resulted in £2 billion of Ordinary Shares being repurchased in July 2020. The completion of the tender offer resulted in a total of £2.5 billion being returned to shareholders and the repurchase and cancellation of 49 million shares. There is currently no further surplus capital to be returned to shareholder, beyond the ongoing dividend policy.

## **IFRS 16 Leases** | Non-cash financial reporting changes in FY20

The impact of the new accounting standard for leases, which is being fully adopted in FY20, is outlined below. Whilst there is a significant impact on the statutory income statement and balance sheet, there will be no change to Whitbread's cashflows and its growth plans, including the ongoing disciplined approach to capital allocation. Furthermore, no detrimental impact is expected to Whitbread's covenants or ability to satisfy its liabilities.

### *IFRS 16 - Summary of changes and impacts*

Under IFRS 16, lease liabilities and associated 'right of use' assets are recognised on the balance sheet using discounted cash flows. As many of Whitbread's leases are long property leases, these changes will significantly increase both total assets and total liabilities, and have a material impact on key performance metrics, including earnings per share.

In the income statement, rental charges for operating leases are replaced with depreciation of the newly recognised asset and interest on the newly recognised lease liability. This in turn will impact some of Whitbread's key reporting measures, including adjusted operating profit, which will increase as a pre-interest measure, and profit before tax, which will decrease as a disproportionate amount of interest is applied at the start of a lease.

### *H1 FY20 IFRS 16 impact on Balance Sheet*

| | Pre-IFRS 16 | Add lease liabilities* | Add right-of-use asset* | Post-IFRS 16 |
|---|---|---|---|---|
| Total assets | £5,656m | - | £2,124m | £7,780m |
| Total liabilities | £(1,557)m | £(2,423)m | - | £(3,980)m |
| **Net assets** | **£4,099m** | £(2,423)m | £2,124m | **£3,800m** |

### *H1 FY20 impact on Income Statement*

| | Pre-IFRS 16 | Remove rent | IFRS16 adjusted to depreciation & interest | Post-IFRS 16 |
|---|---|---|---|---|
| **EBITDAR†** | **£427m** | - | - | **£427m** |
| Rent | £(91)m | £91m | - | - |
| **EBITDA†** | **£336m** | £91m | - | **£427m** |
| Depreciation & amortisation | £(81)m | - | £(50)m | £(131)m |

| | | | | |
|---|---|---|---|---|
| **Adjusted operating profit†** | **£255m** | £91m | £(50)m | **£296m** |
| Net finance costs | £(3)m | - | £(57)m | £(60)m |
| **Adjusted profit before tax†** | **£251m** | £91m | £(107)m | **£236m** |

*Includes working capital adjustments, see supplementary information for further detail

***Key performance measures under IFRS 16***

Under IFRS 16, EBITDAR will not be impacted and will therefore provide a good indicator for continuing operating performance. In addition, certain adjustments will be required to ensure the important return on capital measure remains a meaningful and consistent metric going forward.

***H1 FY20 impact***

| | **Pre-IFRS 16** | **Post-IFRS 16** | ***Change*** |
|---|---|---|---|
| EBITDAR† | £427m | £427m | - |
| Adjusted operating profit† | £255m | £296m | *£41m* |
| Adjusted profit before tax† | £251m | £236m | *£(15)m* |
| Statutory profit before tax | £235m | £220m | *£(15)m* |
| Adjusted basic earnings per share† | 122.6p | 113.0p | *(9.6)p* |
| Statutory basic earnings per share | 113.9p | 104.3p | *(9.6)p* |

## Other information

***Going concern***

A combination of the strong operating cash flows generated by the business and the significant headroom on its credit facilities supports the Directors' view that the Group has sufficient funds available for it to meet its foreseeable working capital requirements. The Directors have taken into account the potential wider macro-economic effects of leaving the EU, including foreign exchange and interest rate fluctuations, and concluded that the going concern basis remains appropriate.

***Risks and uncertainties***

The directors have reconsidered the principal risks and uncertainties of the Group and there has been one change from those reported on pages 54 and 55 of the Annual Report and Accounts 2018/9 and include:

- Brand strength and increasing competitor threats
- Cyber and Data Security - reduces the effectiveness of systems or results in loss of data;
- Change -ability to execute the significant volume of change;
- Economic Climate - results in a decline in GDP, consumer and business spending, a fall in RevPAR and inflation pressure impacting growth plans;
- Retention and wage inflation - failure to maintain staff engagement and retention in a tightening labour market;
- Pandemic/Terrorism - impacts the safety and security of customers or staff and the consequent impact on trading;
- Food safety and hygiene - the preparation and storage of food and/or supply chain failure results in food poisoning and reputational damage;
- Health and safety - death or serious injury as a result of company negligence;
- Third party arrangements - business interruption as a result of the withdrawal of services below acceptable standards or reputational damage as a result of unethical supplier practices.

The risk of a wider macro-economic effect as a result of the UK leaving the EU, including foreign exchange and interest rate fluctuations, is addressed by the Group's Economic Climate risk. The Change risk referenced the upgrade of the customer booking system whilst also delivering an ongoing efficiency programme and upgrading the digital capability and customer proposition. Going forward any potential areas of risk will continue to be closely monitored and evaluated.

***Supplementary information***

Further information is available in Microsoft Excel from: www.whitbread.co.uk/investors/results-reports-and-presentations. This information includes:

- Premier Inn network data;
- Premier Inn sales & financial information;
- IFRS16 adjustments and impact to financial statements; and
- Adjusting items.

***American Depositary Receipts***

Whitbread has established a sponsored Level 1 American Depositary Receipt (ADR) programme for which Deutsche Bank perform the role of depositary bank. The Level 1 ADR programme trades on the U.S. over-the-counter (OTC) markets under the symbol WTBDY (it is not listed on a U.S. stock exchange).

***Rounding***

Certain financial data contained in this document have been rounded and accordingly may not add up to 100 per cent. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data. Where applicable, year-on-year growth percentages have been calculated from the financial data presented in the year end accounts, which are reported to one decimal place. Where year-on-year growth percentages are immaterial or do not provide an appropriate measure of performance, the designation "n.m." (not measured) is included.

***Notes***

*†The performance of the Group is monitored internally using a variety of statutory and alternative performance measures (APMs). APMs are not defined within IFRS and are used to assess the adjusted operational performance of the Group and as such these measures should be*

*considered alongside IFRS measures. APMs used in this announcement include like-for-like sales, adjusted operating profit, adjusted profit, adjusted basic earnings per share, net debt, return on capital, fixed charge cover, discretionary free cash flow, lease-adjusted net (cash) debt: FFO and EBITDAR. For full definitions please refer to the glossary at the end of the document.*

1 *Unless otherwise stated, "Premier Inn" includes Premier Inn UK, Premier Inn Germany, Premier Inn International and food & beverage revenue. This was previously referred to as Premier Inn & Restaurants.*

2 *Source: Which? 2018 Top Rated Large Hotel Chain 4th year in a row*

*Source: British Travel Awards 2018 Best UK Midscale / Economy Hotel Brand 8th year in a row*

*Source: Business Traveller Awards 2019 - Best budget hotel brand*

3 *Source: STR Global*

**Responsibility statement**
We confirm that to the best of our knowledge:

a) The condensed set of financial statements, which has been prepared in accordance with IAS 34, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4R;
b) The interim management report includes a fair review of the information required by the Financial Statements Disclosure and Transparency Rules (DTR) 4.2.7R - indication of important events during the first six months and their impact on the financial statements and description of principal risks and uncertainties for the remaining six months of the year; and
c) The interim management report includes a fair review of the information required by DTR 4.2.8R - disclosure of related party transactions and changes therein.

By order of the Board

| | |
|---|---|
| Alison Brittain | Nicholas Cadbury |
| Chief Executive | Finance Director |

**Interim consolidated income statement**

| | | **(Reviewed) 6 months to 29 August 2019** | | | (Reviewed) 6 months to 30 August 2018 (restated[1]) | | |
|---|---|---|---|---|---|---|---|
| | Notes | **Before adjusting items £m** | **Adjusting items (Note 4) £m** | **Statutory £m** | Before adjusting items £m | Adjusting items (Note 4) £m | Statutory £m |
| **Continuing operations** | | | | | | | |
| Revenue | | **1,078.0** | **6.0** | **1,084.0** | 1,078.9 | - | 1,078.9 |
| Other income | 2 | **8.5** | **16.0** | **24.5** | 3.4 | - | 3.4 |
| Operating costs | | **(787.8)** | **(37.7)** | **(825.5)** | (760.5) | (8.8) | (769.3) |
| **Operating profit before joint ventures** | | **298.7** | **(15.7)** | **283.0** | 321.8 | (8.8) | 313.0 |
| Share of loss from joint ventures | | **(2.3)** | **-** | **(2.3)** | (0.6) | - | (0.6) |
| **Operating profit** | | **296.4** | **(15.7)** | **280.7** | 321.2 | (8.8) | 312.4 |
| Finance costs | 5 | **(72.4)** | **-** | **(72.4)** | (76.0) | - | (76.0) |
| Finance income | 5 | **11.6** | **-** | **11.6** | 0.4 | - | 0.4 |
| **Profit before tax** | | **235.6** | **(15.7)** | **219.9** | 245.6 | (8.8) | 236.8 |
| **Tax expense** | | **(49.0)** | **1.3** | **(47.7)** | (49.5) | 0.1 | (49.4) |
| **Profit for the period from continuing operations** | | **186.6** | **(14.4)** | **172.2** | 196.1 | (8.7) | 187.4 |
| **Discontinued operations** | | | | | | | |
| Profit for the period from discontinued operations | 6 | **-** | **-** | **-** | 44.0 | 2.4 | 46.4 |
| **Profit for the period attributable to parent shareholders** | | **186.6** | **(14.4)** | **172.2** | 240.1 | (6.3) | 233.8 |
| **Earnings per share (Note 7)** | | | | | | | |
| **From continuing operations** | | | | | | | |
| Basic | | **113.0** | **(8.7)** | **104.3** | 107.2 | (4.8) | 102.4 |
| Diluted | | **112.4** | **(8.7)** | **103.7** | 106.5 | (4.7) | 101.8 |
| **From continuing and discontinued operations** | | | | | | | |
| Basic | | **113.0** | **(8.7)** | **104.3** | 131.2 | (3.4) | 127.8 |
| Diluted | | **112.4** | **(8.7)** | **103.7** | 130.4 | (3.4) | 127.0 |

[1] Prior period income statement has been restated to reflect the impact of the adoption of new accounting policies in respect of IFRS 16 Leases (refer to Note 16) and Adjusting items (refer to Note 4).

**Interim consolidated statement of comprehensive income**

| | Notes | **(Reviewed) 6 months to 29 August 2019 £m** | (Reviewed) 6 months to 30 August 2018 (restated) £m |
|---|---|---|---|
| **Profit for the period** | | **172.2** | 233.8 |
| **Items that will not be reclassified to the income statement:** | | | |
| Re-measurement gain on defined benefit pension scheme | 11 | **64.3** | 86.5 |
| Current tax on pensions | | **52.6** | 8.5 |
| Deferred tax on pensions | | **(57.5)** | (25.0) |
| | | **59.4** | 70.0 |
| **Items that may be reclassified subsequently to the income statement:** | | | |

| | | |
|---|---|---|
| Net gain on cash flow hedges | **2.1** | 3.3 |
| Deferred tax on cash flow hedges | **(0.4)** | (0.6) |
| | **1.7** | 2.7 |
| Exchange differences on translation of foreign operations | **20.2** | 5.4 |
| **Other comprehensive income for the period, net of tax** | **81.3** | 78.1 |
| **Total comprehensive income for the period, net of tax, attributable to parent shareholders** | **253.5** | 311.9 |

**Interim consolidated statement of changes in equity**

6 months to 29 August 2019 (Reviewed)

| | Share capital £m | Share premium £m | Capital redemption reserve £m | Retained earnings £m | Currency translation reserve £m | Other reserves £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| **At 28 February 2019** | 150.6 | 81.5 | 12.3 | 8,157.9 | 17.7 | (2,217.6) | **6,202.4** |
| IFRS 16 transition (Note 16) | - | - | - | (219.6) | - | - | **(219.6)** |
| **At 28 February 2019 restated** | 150.6 | 81.5 | 12.3 | 7,938.3 | 17.7 | (2,217.6) | **5,982.8** |
| Profit for the period | - | - | - | 172.2 | - | - | **172.2** |
| Other comprehensive income | - | - | - | 59.0 | 20.2 | 2.1 | **81.3** |
| **Total comprehensive income** | **-** | **-** | **-** | **231.2** | **20.2** | **2.1** | **253.5** |
| Ordinary shares issued | 0.1 | 3.7 | - | - | - | - | **3.8** |
| Loss on ESOT shares issued | - | - | - | (3.0) | - | 3.0 | **-** |
| Accrued share-based payments | - | - | - | 6.3 | - | - | **6.3** |
| Tax on share-based payments | - | - | - | (1.8) | - | - | **(1.8)** |
| Share buyback (Note 12) | - | - | - | - | - | (315.8) | **(315.8)** |
| Share cancellation (Note 12) | (6.9) | - | 6.9 | (140.2) | - | 140.2 | **-** |
| Tender offer (Note 12) | (31.0) | - | 31.0 | (2,012.6) | - | - | **(2,012.6)** |
| Equity dividends | - | - | - | (116.3) | - | - | **(116.3)** |
| **At 29 August 2019** | **112.8** | **85.2** | **50.2** | **5,901.9** | **37.9** | **(2,388.1)** | **3,799.9** |

6 months to 30 August 2018 (Reviewed)

| | Share capital £m | Share premium £m | Capital redemption reserve £m | Retained earnings £m | Currency translation reserve £m | Other reserves £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| **At 1 March 2018** | 150.4 | 73.2 | 12.3 | 4,594.7 | 29.0 | (2,057.1) | 2,802.5 |
| IFRS 16 transition | - | - | - | (220.3) | - | - | (220.3) |
| **At 1 March 2018 restated** | 150.4 | 73.2 | 12.3 | 4,374.4 | 29.0 | (2,057.1) | 2,582.2 |
| Profit for the period | - | - | - | 233.8 | - | - | 233.8 |
| Other comprehensive income | - | - | - | 69.4 | 5.4 | 3.3 | 78.1 |
| **Total comprehensive income** | - | - | - | 303.2 | 5.4 | 3.3 | 311.9 |
| Ordinary shares issued | 0.1 | 3.0 | - | - | - | - | 3.1 |
| Loss on ESOT shares issued | - | - | - | (3.0) | - | 3.0 | - |
| Accrued share-based payments | - | - | - | 8.2 | - | - | 8.2 |
| Equity dividends | - | - | - | (127.6) | - | - | (127.6) |
| **At 30 August 2018** | 150.5 | 76.2 | 12.3 | 4,555.2 | 34.4 | (2,050.8) | 2,777.8 |

**Interim consolidated balance sheet**

| | Notes | **(Reviewed) 29 August 2019 £m** | (Reviewed) 30 August 2018 (restated[1]) £m | (Audited) 28 February 2019 (restated[1]) £m |
|---|---|---|---|---|
| ASSETS | | | | |
| **Non-current assets** | | | | |
| Intangible assets | | **173.7** | 213.1 | 175.6 |
| Right of use assets | | **2,135.8** | 2,138.1 | 2,141.7 |
| Property, plant and equipment | | **4,161.0** | 3,954.3 | 4,090.0 |
| Investment in joint ventures | | **58.4** | 54.1 | 56.6 |
| Derivative financial instruments | 10 | **16.9** | 16.2 | 14.5 |
| Pension surplus | 11 | **222.3** | - | - |
| | | **6,768.1** | 6,375.8 | 6,478.4 |
| **Current assets** | | | | |
| Inventories | | **14.0** | 17.0 | 14.5 |
| Derivative financial instruments | 10 | **13.1** | 18.0 | 1.9 |
| Current tax assets | | **21.7** | - | 12.6 |
| Trade and other receivables | | **136.2** | 87.4 | 111.5 |
| Cash and cash equivalents | 9 | **804.9** | - | 3,403.2 |
| | | **989.9** | 122.4 | 3,543.7 |
| Assets of the disposal group and non-current assets held for sale | 6 | **21.6** | 1,106.7 | 12.2 |
| **Total assets** | | **7,779.6** | 7,604.9 | 10,034.3 |
| LIABILITIES | | | | |
| **Current liabilities** | | | | |
| Borrowings | 9 | **96.0** | 89.5 | - |
| Lease liabilities | | **72.7** | 63.3 | 68.8 |
| Provisions | | **29.2** | 15.6 | 40.9 |
| Derivative financial instruments | 10 | **2.2** | 2.2 | 2.1 |
| Current tax liabilities | | **-** | 9.9 | - |
| Trade and other payables | | **421.4** | 437.1 | 508.0 |
| | | **621.5** | 617.6 | 619.8 |
| **Non-current liabilities** | | | | |
| Borrowings | 9 | **786.4** | 871.8 | 819.9 |
| Lease liabilities | | **2,424.9** | 2,380.7 | 2,403.0 |
| Provisions | | **10.5** | 11.7 | 14.4 |
| Derivative financial instruments | 10 | **3.4** | 4.4 | 3.7 |
| Deferred tax liabilities | | **133.0** | 75.4 | 71.1 |
| Pension liability | 11 | **-** | 161.5 | 119.6 |

| | | | | |
|---|---|---|---|---|
| | | **3,358.2** | 3,505.5 | 3,431.7 |
| Liabilities of disposal group held for sale | 6 | **-** | 704.0 | - |
| **Total liabilities** | | **3,979.7** | 4,827.1 | 4,051.5 |
| **Net assets** | | **3,799.9** | 2,777.8 | 5,982.8 |
| **EQUITY** | | | | |
| Share capital | 12 | **112.8** | 150.5 | 150.6 |
| Share premium | | **85.2** | 76.2 | 81.5 |
| Capital redemption reserve | | **50.2** | 12.3 | 12.3 |
| Retained earnings | | **5,901.9** | 4,555.2 | 7,938.3 |
| Currency translation reserve | | **37.9** | 34.4 | 17.7 |
| Other reserves | | **(2,388.1)** | (2,050.8) | (2,217.6) |
| **Total equity - all attributable to equity holders of the parent** | | **3,799.9** | 2,777.8 | 5,982.8 |

[1] Prior period balance sheets have been restated to reflect the impact of the adoption of IFRS 16 Leases on a fully retrospective basis. Refer to Note 16 for details.

**Interim consolidated cash flow statement**

| | Notes | **(Reviewed) 6 months to 29 August 2019 £m** | (Reviewed) 6 months to 30 August 2018 (restated) £m |
|---|---|---|---|
| **Profit for the period** | | **172.2** | 233.8 |
| Adjustments for: | | | |
| Tax expense | | **47.7** | 61.8 |
| Net finance costs | 5 | **60.8** | 86.1 |
| Share of loss from joint ventures | | **2.3** | 0.7 |
| Adjusting operating costs | 4 | **15.7** | 6.5 |
| Cash outflow from adjusting operating costs | | **(10.0)** | (1.9) |
| Depreciation and amortisation | | **130.8** | 205.5 |
| Share-based payments | | **6.3** | 8.2 |
| Other non-cash items | | **1.6** | 2.5 |
| **Cash generated from operations before working capital changes** | | **427.4** | 603.2 |
| Decrease in inventories | | **0.5** | 1.2 |
| Increase in trade and other receivables | | **(7.9)** | (15.6) |
| Decrease in trade and other payables | | **(53.9)** | (2.5) |
| **Cash generated from operations** | | **366.1** | 586.3 |
| Payments against provisions | | **(13.3)** | (5.2) |
| Pension payments | 11 | **(276.9)** | (45.7) |
| Interest paid - lease liabilities | | **(57.0)** | (66.0) |
| Interest paid - other | | **(7.4)** | (10.1) |
| Interest received | | **9.6** | 0.4 |
| Corporation taxes paid | | **(1.9)** | (43.5) |
| **Net cash flows from operating activities** | | **19.2** | 416.2 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(185.8)** | (225.8) |
| Investment in intangible assets | | **(10.7)** | (35.9) |
| Proceeds from disposal of property, plant and equipment | | **3.7** | 6.2 |
| Capital contributions and loans to joint ventures | | **-** | (5.8) |
| **Net cash flows from investing activities** | | **(192.8)** | (261.3) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of share capital | | **3.8** | 3.1 |
| Acquisition of shares under share buyback and tender offer | 12 | **(2,328.4)** | - |
| Decrease in short-term borrowings | 9 | **-** | (10.3) |
| Proceeds from long-term borrowings | 9 | **50.0** | 50.0 |
| Repayment of lease liabilities | | **(34.3)** | (65.8) |
| Dividends paid | 8 | **(116.3)** | (127.6) |
| **Net cash flows from financing activities** | | **(2,425.2)** | (150.6) |
| **Net (decrease) / increase in cash and cash equivalents** | | **(2,598.8)** | 4.3 |
| Opening cash and cash equivalents | | **3,403.2** | 90.6 |
| Foreign exchange differences | | **0.5** | (0.5) |
| **Closing cash and cash equivalents** | 9 | **804.9** | 94.4 |
| Cash and cash equivalents of disposal groups held for sale | 6 | **-** | 94.4 |
| **Cash and cash equivalents as reported in consolidated balance sheet** | | **804.9** | - |

**Notes to the accounts**

**1. Basis of accounting and preparation**

The interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 21 October 2019.

The interim condensed consolidated financial statements are prepared in accordance with UK listing rules and with IAS 34 'Interim Financial Reporting'. The interim financial report does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006.

The financial information for the year ended 28 February 2019 is extracted from the statutory accounts of the Group for that year and does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006. These published accounts were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the European Union, and reported on by the auditor without qualification or statement under Sections 498(2) or (3) of the Companies Act 2006 and have been delivered to the Registrar of Companies.

The interim condensed consolidated financial statements for the six months ended 29 August 2019 and the comparatives to 30 August 2018 are unaudited but have been reviewed by the auditor; a copy of their review report is included at the end of this report.

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

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 28 February 2019 except as noted below:

**IFRS 16 Leases**
IFRS 16 supersedes IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a

single on-balance sheet model.

The Group has adopted IFRS 16 using the fully retrospective method with the date of initial application being 1 March 2019. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), lease contracts for which the underlying asset is of low value ('low-value assets'), and leases of intangible assets.

Before the adoption of IFRS 16, the Group was required to assess and classify each of its leases at the inception date as either a finance lease or an operating lease. All leases have previously been classified as operating leases. In an operating lease, the leased asset was not capitalised, and the lease payments were recognised as rent expense in the income statement on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Prepayments and Trade and other payables, respectively.

Under IFRS 16, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased assets at the end of the lease term, the recognised right-of-use assets are depreciated over the shorter of its estimated useful life and lease term. Right-of-use assets are subject to impairment testing.

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable and variable lease payments that depend on an index or a rate.

Variable lease payments that do not depend on an index or a rate (e.g. turnover rent) are recognised as expense in the period over which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification or a change in the lease term.

The Group applies the short-term lease recognition exemption to its short-term leases of equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. The Group is not party to any material leases where it acts as a lessor.

In accordance with the fully retrospective method of adoption, the Group applied IFRS 16 at the date of initial application as if it had already been effective at the commencement date of existing lease contracts. Accordingly, the comparative information in these interim condensed consolidated financial statements has been restated, as summarised and set out in Note 16.

**Adjusting items and use of alternative performance measures**
On 1 March 2019 the Group adopted a new accounting policy for adjusting items and use of alternative performance measures. This policy replaces the non-underlying items and use of underlying performance measures policy adopted in the previous financial years. As a result of the change, IAS19 Pension finance costs/income no longer fall within the definition of adjusting items.

We use a range of measures to monitor the financial performance of the Group. These measures include both statutory measures in accordance with IFRS and alternative performance measures (APMs) which are consistent with the way the business performance is measured internally by the Board and Executive Committee. A glossary of APMs and reconciliations to statutory measures is given at the end of this report.

The term adjusted profit is not defined under IFRS and may not be directly comparable with adjusted profit measures used by other companies. It is not intended to be a substitute for, or superior to, statutory measures of profit. Adjusted measures of profitability are non-IFRS because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS.

The Group makes certain adjustments to the statutory profit measures in order to derive many of its APMs. The Group's policy is to exclude items that are considered to be significant in nature and quantum, not in the normal course of business or are consistent with items that were treated as adjusting in prior periods or that span multiple financial periods. Treatment as an adjusting item provides users of the accounts with additional useful information to assess the year-on-year trading performance of the Group.

On this basis, the following are examples of items that may be classified as adjusting items:

- Net charges associated with the strategic programme in relation to the review of the Hotel estate;
- Significant restructuring costs and other associated costs arising from strategy changes that are not considered by the Group to be part of the normal operating costs of the business;
- Significant pension charges arising as a result of the previous year's changes to the UK defined benefit scheme practices;
- Impairment and related charges for sites which are underperforming that are considered to be significant in nature and/or value to the trading performance of the business;
- Costs in relation to the legacy privity estate which are deemed to be significant and not reflective of the Group's ongoing trading results;
- Profit or loss on the sale of a business or investment, and the associated cost impact on the continuing business from the sale of the business or investment;
- Acquisition costs incurred as part of a business combination or other strategic asset acquisitions;
- Amortisation of intangible assets recognised as part of a business combination or other transaction outside of the ordinary course of business; and
- Tax settlements in respect of prior years' including the related interest and the impact of changes in the statutory tax rate, the inclusion of which would distort year on year comparability, as well as the tax impact of the adjusting items identified above.

The directors believe that the adjusted profit and earnings per share measures provide additional useful information to shareholders on the performance of the business. These measures are consistent with how business performance is measured internally by the Board and Executive Committee.

The classification of adjusting items requires significant management judgement after considering the nature and intentions of a transaction.
Note 4 provides further details on current year adjusting items and their adherence to Group policy.

**Discontinued operations**
In accordance with IFRS 5 'Non-current assets held for sale and discontinued operations', the net results of Costa Limited and related subsidiaries (collectively referred to as 'Costa') are presented within discontinued operations in the Group Income Statement (for which the comparatives have been restated) and the assets and liabilities of these operations are presented separately in the Group Balance Sheet. Refer to Note 6 for further details.

**Key accounting judgements and estimates**
The key accounting judgements and estimates are consistent with those disclosed in the Group's annual financial statements for the year ended 28 February 2019 except for the inclusion of the following additional key accounting judgement:

Lease liability - discount rates
The calculation of lease liabilities requires the Group to determine an incremental borrowing rate (IBR) to discount future minimum lease payments. Judgment is applied in determining the components of the IBR used for each lease including risk free rates, the Group's borrowing margin and any lease specific adjustments.

**2. Other income**

| | **6 months to 29 August 2019 £m** | 6 months to 30 August 2018 (restated) £m |
|---|---|---|
| Rental income | **1.9** | 2.4 |
| Rates rebates relating to prior financial years | **6.6** | 1.0 |
| Insurance proceeds (Note 4) | **16.0** | - |
| **Total other income** | **24.5** | 3.4 |

**3. Segmental analysis**

For management purposes, the Group is organised into a single strategic business unit, Premier Inn, which provides services in relation to accommodation and food both in the UK and internationally.

The UK and International Premier Inn segments have been aggregated on the grounds that the international segment does not currently meet the thresholds of being a reportable

segment and meets the aggregation criteria applying IAS 8.

Management monitors the operating results of its strategic business units separately for the purpose of making decisions about allocating resources and assessing performance. Segment performance is measured based on adjusted operating profit.

The following table presents revenue and profit information and certain asset and liability information regarding business operating segments for the six months to 29 August 2019 and 30 August 2018.

| | Notes | **6 months to 29 August 2019 £m** | 6 months to 30 August 2018 (restated) £m |
|---|---|---|---|
| Revenue from external customers | | **1,078.0** | 1,078.9 |
| Revenue - adjusting items | 4 | **6.0** | - |
| **Total revenue** | | **1,084.0** | 1,078.9 |
| | | | |
| Profit from operations | | **376.6** | 406.4 |
| Support and central costs | | **(80.2)** | (85.2) |
| **Adjusted operating profit** | | **296.4** | 321.2 |
| Adjusted net finance costs | 5 | **(60.8)** | (75.6) |
| **Adjusted profit before tax** | | **235.6** | 245.6 |
| Adjusting items | 4 | **(15.7)** | (8.8) |
| **Profit before tax** | | **219.9** | 236.8 |
| | | | |
| **Other segment information** | | | |
| | | | |
| Share of loss from joint ventures | | **(2.3)** | (0.6) |
| Investment in joint ventures | | **58.4** | 54.1 |
| | | | |
| Capital expenditure: | | | |
| Property, plant and equipment - cash basis | | **185.8** | 177.9 |
| Property, plant and equipment - accruals basis | | **153.1** | 137.1 |
| Intangible assets | | **10.7** | 26.9 |
| | | | |
| Depreciation - property, plant and equipment | | **(70.9)** | (68.8) |
| Depreciation - right of use assets | | **(50.3)** | (48.4) |
| Amortisation | | **(9.6)** | (10.6) |

**4. Adjusting items**

At 1 March 2019, the Group adopted a new accounting policy for adjusting items and use of alternative performance measures, replacing the previously adopted non-underlying items and use of underlying performance measures. As a result of the change, IAS 19 Pension finance costs/income no longer fall within the definition of adjusting items.

As set out in the policy in Note 1, we use a range of measures to monitor the financial performance of the Group. These measures include both statutory measures in accordance with IFRS and APMs which are consistent with the way that the business performance is measured internally. We report adjusted measures because we believe they provide both management and investors with useful additional information about the financial performance of the Group's businesses. Adjusted measures of profitability represent the equivalent IFRS measures adjusted for specific items that we consider hinder the comparison of the financial performance of the Group's businesses either from one period to another or with other similar businesses.

| | **6 months to 29 August 2019 £m** | 6 months to 30 August 2018 (restated) £m |
|---|---|---|
| **Adjusting items are as follows:** | | |
| | | |
| Revenue: | | |
| TSA revenue (a) | **6.0** | - |
| | | |
| Other income: | | |
| Insurance proceeds (b) | **16.0** | - |
| | | |
| Operating costs: | | |
| TSA costs (a) | **(5.7)** | - |
| Costa disposal - separation costs (c) | **(10.6)** | (6.6) |
| Costa disposal - impact on continuing business (d) | **2.3** | - |
| Disposal, impairment and write off of intangible assets and property, plant and equipment and property provisions (b) | **(23.7)** | 1.4 |
| UK restructuring | **-** | (3.6) |
| **Adjusting operating costs** | **(37.7)** | (8.8) |
| | | |
| **Adjusting items before tax** | **(15.7)** | (8.8) |
| | | |
| Tax adjustments included in reported profit after tax, but excluded in arriving at adjusted profit after tax: | | |
| Tax on adjusting items | **1.3** | 0.1 |
| **Adjusting tax credit** | **1.3** | 0.1 |

(a) Following the sale of Costa to the The Coca-Cola Company, the Group entered into a Transitional Services Arrangement (TSA) to provide certain services to facilitate the successful separation of Costa from the Whitbread Group. This includes HR, IT and facilities services. The revenue has been earned since the completion of the sale on 3 January 2019 and will continue for a limited time, with all services expected to conclude by the end of 2020.

(b) During the period, the Group made a net loss of £0.2m from development profit on sale and leaseback transactions and disposal of sites previously held for sale, together with impairment losses on hotel sites transferred to assets held for sale of £2.2m and the write off of IT intangible assets of £11.7m. In addition, following a fire at a site, an impairment of £9.6m has been recognised. As the fire represents an insurable event, the Group has recognised anticipated insurance claim proceeds of £16.0m covering property and loss of trade in other income.

(c) Apart from the costs of providing the Transitional Services to Costa, during the period the Group incurred £10.6m of separation costs in relation to the reorganisation of the Group. This included costs of separating IT infrastructure, contract renegotiation and other related activities. Separation activities will continue during the financial year, with total costs expected to be in the region of £23m.

(d) Following the disposal of Costa, the Group announced a restructure to simplify support centre operations and recognised a provision at February 2019 of £11.6m in relation to this restructure. During the period the Group assessed the remaining provision and released £2.3m to the income statement.

**5. Finance (costs) / income**

| | **6 months to 29 August 2019 £m** | 6 months to 30 August 2018 (restated) £m |
|---|---|---|
| **Finance costs** | | |
| Bank loans and overdrafts | **(1.9)** | (1.9) |
| Other loans | **(14.7)** | (16.1) |
| Interest capitalised | **1.3** | 1.6 |

| | | |
|---|---|---|
| Lease interest (IFRS 16) | **(57.0)** | (56.1) |
| Unwinding of discount on provisions | **(0.1)** | (0.1) |
| IAS 19 pension finance cost (Note 11) | **-** | (3.4) |
| | **(72.4)** | (76.0) |
| **Finance income** | | |
| Bank interest receivable | **9.5** | 0.2 |
| Other interest receivable | **-** | 0.1 |
| IAS 19 pension finance income (Note 11) | **2.1** | - |
| Impact of ineffective portion of cash flow and fair value hedges | **-** | 0.1 |
| | **11.6** | 0.4 |
| **Total net finance costs** | **(60.8)** | (75.6) |

**6. Discontinued operations and non-current assets held for sale**

On 31 August 2018, the Group entered into a formal sale agreement to dispose of Costa to The Coca-Cola Company. In accordance with IFRS 5 'Non-current assets held for sale and discontinued operations', the assets and liabilities related to Costa were classified as a disposal group held for sale at 30 August 2018. The sale was approved by the Group's shareholders on 10 October 2018 and completed on 3 January 2019.

The tables below show the results of the discontinued operations which are included in the Group Income Statement and Group Cash Flow Statement for the six months to 30 August 2018, together with the classes of assets and liabilities comprising the operations as held for sale in the Group Balance Sheet as at 30 August 2018.

| | 6 months to 30 August 2018 reported £m | IFRS 16 Impact £m | 6 months to 30 August 2018 restated £m |
|---|---|---|---|
| **Income Statement for discontinued operations** | | | |
| Revenue | 645.0 | - | 645.0 |
| Operating costs | (584.7) | 9.1 | (575.6) |
| **Operating profit before joint ventures** | 60.3 | 9.1 | 69.4 |
| Share of loss from joint ventures | (0.1) | - | (0.1) |
| **Operating profit** | 60.2 | 9.1 | 69.3 |
| Net finance costs | (0.6) | (9.9) | (10.5) |
| **Profit before tax** | 59.6 | (0.8) | 58.8 |
| Tax expense | (12.6) | 0.2 | (12.4) |
| **Profit for the period** | 47.0 | (0.6) | 46.4 |

Adjusting items included in the above results amounted to a credit of £2.4m.

| | 30 August 2018 reported £m | IFRS 16 Impact £m | 30 August 2018 restated £m |
|---|---|---|---|
| **Assets of the disposal group** | | | |
| Intangible assets | 103.0 | - | 103.0 |
| Right of use assets | - | 452.6 | 452.6 |
| Property, plant and equipment | 295.6 | - | 295.6 |
| Investment in joint ventures | 3.7 | - | 3.7 |
| Inventories | 30.5 | - | 30.5 |
| Derivative financial instruments | 0.9 | - | 0.9 |
| Trade and other receivables | 113.2 | - | 113.2 |
| Cash and cash equivalents | 94.4 | - | 94.4 |
| **Total assets** | 641.3 | 452.6 | 1,093.9 |
| **Liabilities of the disposal group** | | | |
| Borrowings | 13.6 | - | 13.6 |
| Lease liabilities | - | 496.2 | 496.2 |
| Provisions | 10.9 | - | 10.9 |
| Tax liabilities | 40.0 | (8.3) | 31.7 |
| Trade and other payables | 151.6 | - | 151.6 |
| **Total liabilities** | 216.1 | 487.9 | 704.0 |
| **Net assets of the disposal group** | 425.2 | (35.3) | 389.9 |

| | 6 months to 30 August 2018 reported £m | IFRS 16 Impact £m | 6 months to 30 August 2018 restated £m |
|---|---|---|---|
| Cash flow from operating activities | 69.7 | 38.0 | 107.7 |
| Cash flow from investing activities | (55.0) | - | (55.0) |
| Cash flow from financing activities | (10.3) | (38.0) | (48.3) |
| **Net cash flows from discontinued operations** | 4.4 | - | 4.4 |
| Intragroup funding and transactions | 66.9 | - | 66.9 |
| **Net cash flows from discontinued operations, net of intercompany** | 71.3 | - | 71.3 |

**Assets of the disposal group and non-current assets held for sale**

| | **29 August 2019 £m** | 30 August 2018 £m | 28 February 2019 £m |
|---|---|---|---|
| Assets of the disposal group | **-** | 1,093.9 | - |
| Non-current assets held for sale | **21.6** | 12.8 | 12.2 |
| | **21.6** | 1,106.7 | 12.2 |

**7. Earnings per share**

The basic earnings per share (EPS) figures are calculated by dividing the net profit for the period attributable to parent shareholders by the weighted average number of ordinary shares in issue during the period after deducting treasury shares and shares held by an independently managed employee share ownership trust (ESOT).

The diluted earnings per share figures allow for the dilutive effect of the conversion into ordinary shares of the weighted average number of options outstanding during the period. Where the average share price for the period is lower than the option price, the options become anti-dilutive and are excluded from the calculation. The number of such options for all disclosed periods was nil.

The numbers of shares used for the earnings per share calculations are as follows. The weighted average number of shares has decreased significantly as a result of the cancellation of shares following completion of the share buyback and tender offer (refer to Note 12):

| | 6 months to 29 August 2019 million | 6 months to 30 August 2018 million |
|---|---|---|
| Basic weighted average number of ordinary shares | **165.1** | 183.0 |
| Effect of dilution - share options | **0.9** | 1.1 |
| Diluted weighted average number of ordinary shares | **166.0** | 184.1 |

**From continuing operations**

The profits used for the earnings per share calculations are as follows:

| | 6 months to 29 August 2019 £m | 6 months to 30 August 2018 (restated) £m |
|---|---|---|
| **Profit for the period attributable to parent shareholders** | **172.2** | 233.8 |
| Profit from discontinued operations | **-** | (46.4) |
| **Profit for the period from continuing operations attributable to parent shareholders** | **172.2** | 187.4 |
| Adjusting items - gross | **15.7** | 8.8 |
| Adjusting items - taxation | **(1.3)** | (0.1) |
| **Adjusted profit for the period attributable to parent shareholders** | **186.6** | 196.1 |

| | 6 months to 29 August 2019 pence | 6 months to 30 August 2018 (restated) pence |
|---|---|---|
| **Basic EPS on profit for the period from continuing operations** | **104.3** | 102.4 |
| Adjusting items - gross | **9.5** | 4.8 |
| Adjusting items - taxation | **(0.8)** | - |
| **Basic EPS on Adjusted profit for the period from continuing operations** | **113.0** | 107.2 |
| **Diluted EPS on profit for the period from continuing operations** | **103.7** | 101.8 |
| **Diluted EPS on adjusted profit for the period from continuing operations** | **112.4** | 106.5 |

**From continuing and discontinued operations**

The profits used for the earnings per share calculations are as follows:

| | 6 months to 29 August 2019 £m | 6 months to 30 August 2018 (restated) £m |
|---|---|---|
| **Profit for the period attributable to parent shareholders** | **172.2** | 233.8 |
| Adjusting items- gross | **15.7** | 6.5 |
| Adjusting items - taxation | **(1.3)** | (0.2) |
| **Adjusted profit for the period attributable to parent shareholders** | **186.6** | 240.1 |

| | 6 months to 29 August 2019 pence | 6 months to 30 August 2018 (restated) pence |
|---|---|---|
| **Basic EPS on profit for the period** | **104.3** | 127.8 |
| Adjusting items - gross | **9.5** | 3.5 |
| Adjusting items - taxation | **(0.8)** | (0.1) |
| **Basic EPS on adjusted profit for the period** | **113.0** | 131.2 |
| **Diluted EPS on profit for the period** | **103.7** | 127.0 |
| **Diluted EPS on adjusted profit for the period** | **112.4** | 130.4 |

**8. Dividends paid**

| | 6 months to 29 August 2019 | | 6 months to 30 August 2018 | |
|---|---|---|---|---|
| | **pence per share** | **£m** | pence per share | £m |
| Equity dividends on ordinary shares: | | | | |
| Final dividend for prior year | **67.00** | **116.3** | 69.75 | 127.6 |
| Dividends on other shares: | | | | |
| B share dividend | **0.90** | **-** | 0.90 | - |
| Total dividends paid | | **116.3** | | 127.6 |

An interim dividend of 32.65p per share (2018: 32.65p) amounting to a dividend of £43.7m (2018: £59.7m) was declared by the directors on 21 October 2019. A dividend reinvestment plan (DRIP) alternative will be offered. These consolidated financial statements do not reflect this dividend payable.

**9. Movements in cash and net debt**

| | 28 February 2019 £m | Cost of borrowings £m | Cash flow £m | Foreign exchange £m | Fair value adjustments to loan capital £m | Amortisation of premiums and discounts £m | **29 August 2019 £m** |
|---|---|---|---|---|---|---|---|
| Cash at bank and in hand | 25.9 | | | | | | **55.7** |
| Short-term deposits | 3,377.3 | | | | | | **749.2** |
| Overdrafts | - | | | | | | **-** |
| Cash and cash equivalents | 3,403.2 | **-** | **(2,598.8)** | **0.5** | **-** | **-** | **804.9** |
| Short-term bank borrowings | - | | | | | | **-** |
| Loan capital under one year | - | | | | | | **(96.0)** |
| Loan capital over one year | (819.9) | | | | | | **(786.4)** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total loan capital | (819.9) | - | **(50.0)** | **(6.4)** | **(5.4)** | **(0.7)** | **(882.4)** |
| Net cash/(debt) | 2,583.3 | - | **(2,648.8)** | **(5.9)** | **(5.4)** | **(0.7)** | **(77.5)** |

Net debt includes US$ denominated loan notes of US$168.5m (February 2019: US$168.5m) retranslated at period end to £139.1m (February 2019: £127.4m). These notes have been hedged using cross-currency swaps. At maturity, £108.6m (February 2019: £108.6m) will be repaid taking into account the cross-currency swaps. If the impact of these hedges is taken into account, reported net debt would be £47.0m (February 2019: net cash £2,601.0m).

**10. Financial instruments**

The Group entered into a number of cross-currency swap agreements in relation to the US$ denominated loan notes to eliminate any foreign currency exchange risk on interests or on the repayment of principal borrowed.

IFRS 13 requires that the classification of financial instruments measured at fair value be determined by reference to the source of inputs used to derive the fair value. The classification uses the following three-level hierarchy:

**Level 1 -** Quoted prices (unadjusted) in active markets for identical assets or liabilities;

**Level 2 -** Other techniques for which all inputs, which have a significant effect on the recorded fair value, are observable, either directly or indirectly; and

**Level 3 -** Techniques which use inputs, which have a significant effect on the recorded fair value, that are not based on observable market data.

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

| | **29 August 2019 £m** | 30 August 2018 £m | 28 February 2019 £m |
|---|---|---|---|
| **Financial assets** | | | |
| Derivative financial instruments - level 2 | **30.0** | 35.1 | 16.4 |
| **Financial liabilities** | | | |
| Derivative financial instruments - level 2 | **5.6** | 6.6 | 5.8 |

There were no transfers between levels during any period disclosed.

**11. Pension (liability) / surplus**

During the six-month period to 29 August 2019, the defined benefit pension scheme has moved from a liability of £119.6m to a surplus of £222.3m. The main movements in the (liability)/surplus are as follows:

| | | **£m** |
|---|---|---|
| Pension liability at 28 February 2019 | | (119.6) |
| Re-measurement due to: | | |
| Changes in financial assumptions | (445.2) | |
| Return on plan assets greater than discount rate | 509.5 | |
| | | 64.3 |
| Contributions from employer | | 276.9 |
| Net interest on pension liability and assets | | 2.1 |
| Administrative expenses | | (1.4) |
| **Pension surplus at 29 August 2019** | | **222.3** |

The above surplus has been recognised as the Group has an unconditional right to receive a refund, assuming the gradual settlement of the scheme liabilities over time until all members and their dependants have either died or left the scheme, in accordance with the provisions of IFRIC 14.

**12. Share capital and reserves**

Following the completion of the sale of Costa Limited on 3 January 2019, the Group announced its intention to start a share buyback programme. During the period the Group purchased 6.5m ordinary shares (representing approximately 3.3% of the issued ordinary share capital) at an average price of £48.00 per share, and an aggregate cost of £315.8m under the share buyback programme. These shares, together with those acquired last financial year (3.5m shares at an average price of £48.87 per share and an aggregate cost of £169.9m), were initially held as treasury shares.

During the period the Group cancelled 9.0m ordinary shares that were previously held as treasury shares, creating a capital redemption reserve of £6.9m and transferring cost of treasury shares of £140.2m to retained earnings.

During the period the Group announced and completed a tender offer to purchase 40.2m ordinary shares at a price of £49.72 per share, and an aggregate cost of £2,012.6m. The shares acquired under the tender offer were immediately cancelled creating a capital redemption reserve of £31.0m.

Allotted, called up and fully paid shares of 76.80p each;

| | million | £m |
|---|---|---|
| At 28 February 2019 | 195.9 | 150.6 |
| Issued | 0.1 | 0.1 |
| Cancelled | (9.0) | (6.9) |
| Tender offer | (40.2) | (31.0) |
| **At 29 August 2019** | **146.8** | **112.8** |

| **Share capital and treasury** shares | Share capital million | Treasury shares million | Voting rights million |
|---|---|---|---|
| At 28 February 2019 | 195.9 | (15.6) | 180.3 |
| Issued | 0.1 | - | 0.1 |
| Purchased | - | (6.5) | (6.5) |
| Cancelled | (9.0) | 9.0 | - |
| Tender offer | (40.2) | - | (40.2) |
| **At 29 August 2019** | **146.8** | **(13.1)** | **133.7** |

**13. Related party disclosure**

In note 31 to the Annual Report and Accounts for the year ended 28 February 2019, the Group identified its related parties as its key management personnel (including directors), the Group pension schemes and its joint ventures for the purpose of IAS 24 'Related Party Disclosure'. There have been no significant changes in those related parties identified at the year end and there have been no transactions with those related parties during the six months to 29 August 2019 that have materially affected, or are expected to materially affect, the financial position or performance of the Group during this period. Details of the relevant relationships with those related parties will be disclosed in the Annual Report and Accounts for the year ending 27 February 2020. All transactions with subsidiaries are eliminated on consolidation.

**14. Capital expenditure commitments**

Capital expenditure commitments for which no provision has been made are set out in the table below:

| | **29 August 2019 £m** | 30 August 2018 £m | 28 February 2019 £m |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Property, plant and equipment | **203.1** | 136.1 | 200.5 |
| Intangible assets | **0.5** | 11.9 | 3.4 |

**15. Events after the balance sheet date**

As announced on 23 September 2019 the Group completed the acquisition of a portfolio of three independent hotels in Germany, from a private individual operating under the brand "Acomhotel". The consideration for the acquired business amounts to €30.7m.

**16. Restatement on adoption of IFRS 16**

| **Interim consolidated income statement** | 6 months to 30 August 2018 Total reported £m | IFRS 16 Transition Total £m | 6 months to 30 August 2018 Total restated £m |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 1,078.9 | - | 1,078.9 |
| Other income | - | 3.4 | 3.4 |
| Operating costs | (801.4) | 32.1 | (769.3) |
| **Operating profit before joint ventures** | 277.5 | 35.5 | 313.0 |
| Share of loss from joint ventures | (0.6) | - | (0.6) |
| **Operating profit** | 276.9 | 35.5 | 312.4 |
| Finance costs | (19.9) | (56.1) | (76.0) |
| Finance income | 0.4 | - | 0.4 |
| **Profit before tax** | 257.4 | (20.6) | 236.8 |
| **Tax expense** | (53.3) | 3.9 | (49.4) |
| **Profit for the period from continuing operations** | 204.1 | (16.7) | 187.4 |
| **Discontinued operations** | | | |
| Profit for the period from discontinued operations | 47.0 | (0.6) | 46.4 |
| **Profit for the period** | 251.1 | (17.3) | 233.8 |
| **Earnings per share** | | | |
| **From continuing operations** | | | |
| Basic | 111.5 | (9.1) | 102.4 |
| Diluted | 110.9 | (9.1) | 101.8 |
| **From continuing and discontinued operations** | | | |
| Basic | 137.2 | (9.4) | 127.8 |
| Diluted | 136.4 | (9.4) | 127.0 |

| **Consolidated balance sheet** | 30 August 2018 reported £m | IFRS 16 transition £m | 30 August 2018 restated £m | 29 February 2019 reported £m | IFRS 16 transition £m | 29 February 2019 restated £m |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| **Non-current assets** | | | | | | |
| Intangible assets | 213.1 | - | 213.1 | 175.6 | - | 175.6 |
| Right of use assets | - | 2,138.1 | 2,138.1 | - | 2,141.7 | 2,141.7 |
| Property, plant and equipment | 3,954.3 | - | 3,954.3 | 4,090.0 | - | 4,090.0 |
| Investment in joint ventures | 54.1 | - | 54.1 | 56.6 | - | 56.6 |
| Derivative financial instruments | 16.2 | - | 16.2 | 14.5 | - | 14.5 |
| | 4,237.7 | 2,138.1 | 6,375.8 | 4,336.7 | 2,141.7 | 6,478.4 |
| **Current assets** | | | | | | |
| Inventories | 17.0 | - | 17.0 | 14.5 | - | 14.5 |
| Derivative financial instruments | 18.0 | - | 18.0 | 1.9 | - | 1.9 |
| Current tax asset | - | - | - | 12.6 | - | 12.6 |
| Trade and other receivables | 100.9 | (13.5) | 87.4 | 123.5 | (12.0) | 111.5 |
| Cash and cash equivalents | - | - | - | 3,403.2 | - | 3,403.2 |
| | 135.9 | (13.5) | 122.4 | 3,555.7 | (12.0) | 3,543.7 |
| Assets of the disposal group and non-current assets held for sale | 654.1 | 452.6 | 1,106.7 | 12.2 | - | 12.2 |
| **Total assets** | 5,027.7 | 2,577.2 | 7,604.9 | 7,904.6 | 2,129.7 | 10,034.3 |
| LIABILITIES | | | | | | |
| **Current liabilities** | | | | | | |
| Borrowings | 89.5 | - | 89.5 | - | - | - |
| Lease liabilities | - | 63.3 | 63.3 | - | 68.8 | 68.8 |
| Provisions | 15.6 | - | 15.6 | 40.9 | - | 40.9 |
| Derivative financial instruments | 2.2 | - | 2.2 | 2.1 | - | 2.1 |
| Current tax liabilities | 9.9 | - | 9.9 | - | - | - |
| Trade and other payables | 488.6 | (51.5) | 437.1 | 562.2 | (54.2) | 508.0 |
| | 605.8 | 11.8 | 617.6 | 605.2 | 14.6 | 619.8 |
| **Non-current liabilities** | | | | | | |
| Borrowings | 871.8 | - | 871.8 | 819.9 | - | 819.9 |
| Lease liabilities | - | 2,380.7 | 2,380.7 | - | 2,403.0 | 2,403.0 |
| Provisions | 11.7 | - | 11.7 | 17.0 | (2.6) | 14.4 |
| Derivative financial instruments | 4.4 | - | 4.4 | 3.7 | - | 3.7 |
| Deferred tax liabilities | 116.6 | (41.2) | 75.4 | 116.3 | (45.2) | 71.1 |
| Pension liability | 161.5 | - | 161.5 | 119.6 | - | 119.6 |
| Trade and other payables | 24.4 | (24.4) | - | 20.5 | (20.5) | - |
| | 1,190.4 | 2,315.1 | 3,505.5 | 1,097.0 | 2,334.7 | 3,431.7 |
| Liabilities of disposal group held for sale | 216.1 | 487.9 | 704.0 | - | - | - |
| **Total liabilities** | 2,012.3 | 2,814.8 | 4,827.1 | 1,702.2 | 2,349.3 | 4,051.5 |
| **Net assets** | 3,015.4 | (237.6) | 2,777.8 | 6,202.4 | (219.6) | 5,982.8 |

| **EQUITY** | | | | | | |
|---|---|---|---|---|---|---|
| Share capital | 150.5 | - | 150.5 | 150.6 | - | 150.6 |
| Share premium | 76.2 | - | 76.2 | 81.5 | - | 81.5 |
| Capital redemption reserve | 12.3 | - | 12.3 | 12.3 | - | 12.3 |
| Retained earnings | 4,792.8 | (237.6) | 4,555.2 | 8,157.9 | (219.6) | 7,938.3 |
| Currency translation reserve | 34.4 | - | 34.4 | 17.7 | - | 17.7 |
| Other reserves | (2,050.8) | - | (2,050.8) | (2,217.6) | - | (2,217.6) |
| **Total equity - all attributable to equity holders of the parent** | 3,015.4 | (237.6) | 2,777.8 | 6,202.4 | (219.6) | 5,982.8 |

| **Consolidated cashflow statement** | 30 August 2018 reported £m | IFRS 16 transition £m | 30 August 2018 restated £m |
|---|---|---|---|
| **Profit for the period** | 251.1 | (17.3) | 233.8 |
| Adjustments for: | | | |
| Tax expense | 65.9 | (4.1) | 61.8 |
| Net finance costs | 20.1 | 66.0 | 86.1 |
| Share of loss from joint ventures | 0.7 | - | 0.7 |
| Adjusting operating costs | 6.5 | - | 6.5 |
| Cash outflow from adjusting operating costs | (1.9) | - | (1.9) |
| Depreciation and amortisation | 117.9 | 87.6 | 205.5 |
| Share-based payments | 8.2 | - | 8.2 |
| Other non-cash items | 2.5 | - | 2.5 |
| **Cash generated from operations before working capital changes** | 471.0 | 132.2 | 603.2 |
| Decrease in inventories | 1.2 | - | 1.2 |
| Increase in trade and other receivables | (15.6) | - | (15.6) |
| Decrease in trade and other payables | (2.1) | (0.4) | (2.5) |
| **Cash generated from operations** | 454.5 | 131.8 | 586.3 |
| Payments against provisions | (5.2) | - | (5.2) |
| Pension payments | (45.7) | - | (45.7) |
| Interest paid - lease liabilities | - | (66.0) | (66.0) |
| Interest paid - other | (10.1) | - | (10.1) |
| Interest received | 0.4 | - | 0.4 |
| Corporation taxes paid | (43.5) | - | (43.5) |
| **Net cash flows from operating activities** | 350.4 | 65.8 | 416.2 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | (225.8) | - | (225.8) |
| Investment in intangible assets | (35.9) | - | (35.9) |
| Proceeds from disposal of property, plant and equipment | 6.2 | - | 6.2 |
| Capital contributions and loans to joint ventures | (5.8) | - | (5.8) |
| **Net cash flows from investing activities** | (261.3) | - | (261.3) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of share capital | 3.1 | - | 3.1 |
| Decrease in short-term borrowings | (10.3) | - | (10.3) |
| Proceeds from long-term borrowings | 50.0 | - | 50.0 |
| Repayment of lease liabilities | - | (65.8) | (65.8) |
| Dividends paid | (127.6) | - | (127.6) |
| **Net cash flows from financing activities** | (84.8) | (65.8) | (150.6) |
| **Net increase in cash and cash equivalents** | 4.3 | - | 4.3 |
| Opening cash and cash equivalents | 90.6 | - | 90.6 |
| Foreign exchange differences | (0.5) | - | (0.5) |
| **Closing cash and cash equivalents** | 94.4 | - | 94.4 |

A reconciliation of the operating lease commitment previously reported under IAS 17 to the discounted lease liability as at 28 February 2019 under IFRS 16 is as follows:

| | **£m** |
|---|---|
| Lease commitments under IAS 17 | 3,508.6 |
| Lease extensions beyond break date | 1,302.2 |
| Other | 26.0 |
| **Undiscounted lease liability under IFRS 16** | 4,836.8 |
| Less impact of discounting | (2,365.0) |
| **Discounted lease liability under IFRS 16** | **2,471.8** |

**Independent review report to Whitbread PLC**

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 29 August 2019 which comprises the income statement, statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and related notes 1 to 16. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements ( UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

**Directors' responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

**Our responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

**Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 29 August 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

**Deloitte LLP**
Statutory Auditor
London, United Kingdom
21 October 2019

## Glossary

**Accommodation sales**
Premier Inn accommodation revenue excluding non-room income such as food and beverage.

**Adjusted basic EPS†#**
Adjusted profit attributable to the parent shareholders divided by the basic weighted average number of ordinary shares.
*Closest IFRS measure: Basic EPS*
*Reconciliation: Note 7*

**Adjusted EBITDAR†**
Adjusted earnings before interest, tax, depreciation, amortisation and rent.
*Closest IFRS measure: No direct equivalent*
*Reconciliation: Financial review*

**Adjusted net (cash) / debt†**
Net debt adjusted for cash not readily available.
*Closest IFRS measure:* Borrowings less cash and cash equivalents
*Reconciliation: Refer below*

**Adjusted net finance costs†#**
Finance costs net of finance income excluding adjusting finance costs or income.
*Closest IFRS measure: Net finance costs*
*Reconciliation: Note 4*

**Adjusted operating profit†#**
Operating profit before adjusting operating costs.
*Closest IFRS measure: Operating profit*
*Reconciliation: Consolidated income statement*

**Adjusted operating profit (pre-IFRS 16)†#**
Operating profit before adjusting items restated to remove the impact of adopting IFRS 16, replacing IFRS 16 right of use asset depreciation and lease liability interest with rent expense under IAS 17. New measure to enable comparison between periods following adoption of IFRS 16 Leases in the year.
*Closest IFRS measure: Profit before tax*
*Reconciliation: Refer below*

**Adjusted profit before tax†#**
Profit before tax before adjusting items.
*Closest IFRS measure: Profit before tax*
*Reconciliation: Consolidated income statement*

**Adjusted profit before tax (pre-IFRS 16)†#**
Profit before tax before adjusting items restated to remove the impact of adopting IFRS 16, replacing IFRS 16 right of use asset depreciation and lease liability interest with rent expense under IAS 17. New measure to enable comparison between periods following adoption of IFRS 16 Leases in the year.
*Closest IFRS measure: Profit before tax*
*Reconciliation: Refer below*

**Adjusted property rent**
Property rent less a proportion of contingent rent.

**Adjusted tax†#**
Tax expense excluding adjusting tax items.
*Closest IFRS measure: Tax Expense*
*Reconciliation: Consolidated income statement*

**Average room rate (ARR)†**
Accommodation revenue divided by the number of rooms occupied by guests.
*Closest IFRS measure: No direct equivalent*
*Reconciliation: Refer below*

**Capitalised leases**
The treatment of leases as an asset for the purposes of calculating Whitbread's leverage ratio. Calculated as multiplying the annual property rent cost by 8x in line with external credit rating agency assessments of the lodging industry.

**Direct bookings / distribution**
Based on stayed bookings in the financial year made direct to the Premier Inn website, Premier Inn app, Premier Inn customer contact centre or hotel front desks.

**Discretionary free cash flow†**
Cash generated from operations (pre-IFRS 16) after payments for interest, tax and maintenance capital.
*Closest IFRS measure: Cash generated from operations*
*Reconciliation: Financial review*

**Earnings per share (EPS)**
Profit attributable to the parent shareholders divided by the basic weighted average number of ordinary shares in issue during the year after deducting treasury shares and shares held by an independently managed share ownership trust ('ESOT').

**EBITDA†**
Adjusted earnings before interest, tax, depreciation and amortisation.
*Closest IFRS measure: No direct equivalent*
*Reconciliation: Financial review*

**Fixed charge cover†**
Ratio of adjusted operating profit before total property rent compared to interest plus total property rent.
*Closest IFRS measure: No direct equivalent*
*Reconciliation: Refer below*

**Food and beverage (F&B) sales**
Food and beverage revenue from all Whitbread owned pub restaurants and integrated hotel restaurants.

**Funds from operations (FFO)†**
Net cash flows from operating activities, adding back changes in working capital, property rent & cash interest.
*Closest IFRS measure:* Cash flow from operations
*Reconciliation: Refer below*

**IFRS**
International Financial Reporting Standards.

**Lease debt**
Eight times adjusted property rent.

**Lease adjusted net (cash) / debt†**
Adjusted net debt plus lease debt.
*Closest IFRS measure:* Borrowings less cash and cash equivalents
*Reconciliation: Refer below*

**Lease-adjusted net (cash) / debt : FFO†**
Ratio of lease-adjusted net debt compared to funds from operations (FFO).
*Closest IFRS measure: No direct equivalent*
*Reconciliation: Refer below*

**Like-for-like sales†**
Period over period change in revenue for outlets open for at least one year.
*Closest IFRS measure: No direct equivalent*
*Reconciliation: Refer below*

**Net (cash) / debt†**
Total company borrowings after deducting cash and cash equivalents.
*Closest IFRS measure:* Borrowings less cash and cash equivalents
*Reconciliation: Note 9*

**Occupancy**
Number of hotel bedrooms occupied by guests expressed as a percentage of the number of bedrooms available in the period.

**Operating margin / margins**
Operating profit expressed as a percentage of total revenue.

**Operating profit**
Profit before interest and tax.

**Profit from operations**
Profit before support and central costs, interest and tax.

**RevPAR†**
Revenue per available room is also known as 'yield'. This hotel measure is achieved by multiplying the ARR by Occupancy.
*Closest IFRS measure: No direct equivalent*
*Reconciliation: Refer below*

**Return on Capital (ROCE)†**
Adjusted operating profit (pre-IFRS 16) for the year divided by net assets at the balance sheet date, adding back net debt, right of use assets, lease liabilities, taxation liabilities, the pension surplus/deficit and derivative financial assets and liabilities.
*Closest IFRS measure: No direct equivalent*
*Reconciliation: Refer below*

†**Alternative Performance Measures**
We use a range of measures to monitor the financial performance of the Group. These measures include both statutory measures in accordance with IFRS and alternative performance measures (APMs) which are consistent with the way that the business performance is measured internally.

We report adjusted measures because we believe they provide both management and investors with useful additional information about the financial performance of the Group's businesses.

Adjusted measures of profitability represent the equivalent IFRS measures adjusted for specific items that we consider relevant for comparison of the financial performance of the Group's businesses either from one period to another or with other similar businesses.
APMs are not defined by IFRS and therefore may not be directly comparable with similarly titled measures reported by other companies. APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measures.

The Group uses a moving annual total (MAT i.e. a rolling 12 month period) for income and expense figures included in EBITDA, EBITDAR, Return on capital and Fixed charge cover APMs. As the incomes and expenses included in these measures are calculated on an MAT basis, the amounts for the 12 months to 29 August 2019 and 30 August 2018 are not disclosed in the notes to the condensed consolidated interim financial statements for the current financial period.

**# New APM**
Measure represents a new/revised APM as a direct result of the adoption of the new Adjusting items accounting policy (refer to Note 1).

**Reconciliations of APMs**

| **Adjusted operating profit** | **6 months to 29 August 2019** | 6 months to 30 August 2018 |
|---|---|---|
| Adjusted operating profit | **296.4** | 321.2 |
| Right of use asset depreciation | **50.3** | 48.4 |
| Rent expense | **(91.7)** | (83.9) |
| **Adjusted operating profit (pre-IFRS 16)** | **255.0** | 285.7 |

| **Adjusted operating profit** | **12 months to 29 August 2019** | 12 months to 30 August 2018 |
|---|---|---|
| **Adjusted operating profit (pre-IFRS 16)** | **435.7** | 471.4 |

| **Return on capital** | **12 months to 29 August 2019** | 12 months to 30 August 2018 |
|---|---|---|

| | |
|---|---|
| Net assets | **3,799.9** | 2,387.9 |
| Right of use assets | **(2,135.8)** | (2,138.1) |
| Lease liabilities | **2,497.6** | 2,444.0 |
| Working capital adjustment (pre-IFRS 16) | **(63.6)** | (62.4) |
| Net assets (pre-IFRS 16) | **4,098.1** | 2,631.4 |
| Net debt | **77.5** | 961.3 |
| Current tax (assets) / liabilities | **(21.7)** | 9.9 |
| Deferred tax liabilities | **133.0** | 75.4 |
| Pension (surplus) / deficit | **(222.3)** | 161.5 |
| Derivative financial assets | **(30.0)** | (34.2) |
| Derivative financial liabilities | **5.6** | 6.6 |
| **Net assets for return on capital** | **4,040.2** | 3,811.9 |
| **Return on capital** | **10.8%** | 12.4% |

| **Fixed charge cover** | **12 months to 29 August 2019** |
|---|---|
| Adjusted operating profit (pre-IFRS 16) | **435.7** |
| Total property rent | **176.1** |
| **Adjusted operating profit before rent** | **611.8** |
| Adjusted interest (pre-IFRS 16) | **18.5** |
| Total property rent | **176.1** |
| **Adjusted interest plus rent** | **194.6** |
| **Fixed charge cover** | **3.1** |

| **Funds from operations and adjusted net debt** | **12 months to 29 August 2019** | 12 months to 30 August 2018 | Year ended 28 February 2019 |
|---|---|---|---|
| Net cash flow from operations | **114.8** | | |
| Lease interest | **114.0** | | |
| Rent | **(177.5)** | | |
| Net cash flow from operations (pre-IFRS 16) | **51.3** | 650.2 | 485.7 |
| Movement in working capital | **29.1** | (22.2) | 1.4 |
| Unadjusted funds from operations | **80.4** | 628.0 | 487.1 |
| Cash interest | **22.0** | 35.2 | 33.9 |
| Adjusted property rent | **176.1** | 289.4 | 274.1 |
| Adjustment for one-off pension payment | **381.0** | - | 107.0 |
| **Funds from operations** | **659.5** | 952.6 | 902.1 |
| Net (cash) / debt | **77.5** | 880.5 | (2,583.3) |
| Restricted cash adjustment | **10.0** | 10.0 | 10.0 |
| Adjusted net (cash) / debt | **87.5** | 890.5 | (2,573.3) |
| Lease debt | **1,404.0** | 2,316.0 | 2,192.8 |
| **Lease-adjusted net (cash) / debt** | **1,491.5** | 3,206.5 | (380.5) |
| **Lease-adjusted net debt to FFO** | **2.2** | 3.4 | (0.4) |

| **Like for like sales and RevPAR** | **6 months to 29 August 2019** | 6 months to 30 August 2018 | Growth |
|---|---|---|---|
| Accommodation revenue - UK | **697.3** | 701.8 | **(0.6)%** |
| Accommodation revenue - international | **3.0** | 1.7 | |
| **Accommodation revenue** | **700.3** | 703.5 | |
| **LFL UK accommodation revenue** | **(3.6)%** | 0.2% | |
| Contribution from net new hotels | **3.0%** | 2.6% | |
| **Total UK accommodation sales growth** | **(0.6)%** | 2.8% | |
| Accommodation revenue - UK (£m) | **697.3** | 701.8 | |
| Available rooms UK (000) | **13,894** | 13,249 | |
| **RevPAR (£)** | **50.19** | 52.97 | |

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