Strong UK performance and a step-change in international momentum

- Strong growth of Premier Inn[1] in the UK at a consistently good return on capital
- Costa focused on increased demand for convenience through active channel shift & continued excellent growth of Costa Express
- Premier Inn Germany expansion materially accelerated with over 30 hotels by 2020
- Costa South China JV partner acquired, enabling increased target of 1,200 stores by 2022
- Increased efficiency savings target from £150 million to £250 million, with £100 million to be delivered over next two years, offsetting known inflation
- Whitbread will pursue a demerger of Costa, providing shareholders with investments in two distinct, focused and market-leading businesses

Good financial performance in line with expectations

	FY18	FY17	*Change*
Revenue	£3,295m	£3,106m	*6.1%*
Underlying operating profit†	£622m	£592m	*5.0%*
Underlying profit before tax†	£591m	£565m	*4.5%*
Statutory operating profit	£590m	£553m	*6.7%*
Statutory profit before tax	£548m	£515m	*6.4%*
Underlying basic earnings per share†	260p	246p	*5.6%*
Statutory basic earnings per share	240p	231p	*3.6%*
Dividend per share	101p	96p	*5.6%*
Discretionary free cash flow†	£585m	£532m	*9.9%*
Cash generated from operations	£877m	£860m	*2.0%*
Capital expenditure	£555m	£610m	*£(55)m*
Return on capital† – Premier Inn	13.4%	13.0%	*40bps*
Return on capital† – Costa	46.0%	45.4%	*60bps*
Return on capital† – Group	15.4%	15.2%	*20bps*

- Strong revenue growth of 6.1% and market share gains in both Premier Inn and Costa
- Disciplined cost management enabling underlying profit growth of 4.5% to £591 million
- Premier Inn underlying operating profit growth to £498 million, Costa increased to £159 million
- Statutory profit before tax growth of 6.4% to £548 million
- Good discretionary free cash flow conversion of 94%, delivering £585 million to reinvest
- Strong balance sheet with net debt† of £833 million and facilities of £1.8 billion
- Return on capital increased 20 bps to 15.4% whilst continuing to grow market share

Alison Brittain, Whitbread Chief Executive Officer, commented:

"Whitbread has produced another strong financial performance this year, with revenue growth of 6.1% to £3,295 million. Disciplined cost management has enabled us to grow underlying profit before tax by 4.5% to £591 million, with statutory profit before tax up 6.4% to £548 million.

We have accelerated delivery momentum in all three of our strategic priorities during the year. In the UK, we have increased revenues, profits, cash flow, dividends and return on capital, notwithstanding challenging market conditions. This growth has been underpinned by disciplined investment in new capacity for both Premier Inn and Costa and a relentless focus on improving the overall experience for our millions of customers. With ongoing growth in coffee consumption and our increasing ability to win market share from the independent hotel sector, we are confident of further growth at a good return on capital in the years ahead.

Internationally, we announced two strategically significant transactions for Premier Inn in Germany and Costa in China. In our first acquisition in Germany, we have agreed to acquire 19 hotels, comprising 3,100 rooms. In addition to our organic pipeline, this will ensure we have at least 31 hotels, comprising 5,720 Premier Inn rooms by 2021. In China, we completed the buy-out of one of our two joint-venture partners. This acquisition provides Costa with full control of stores outside Beijing and allows us to increase our ambition to target 1,200 stores by 2022. These acquisitions provide solid foundations from which both businesses can grow international operations of increasing significance in the years ahead.

In addition to growing our business at a good return on capital, we have also worked hard to generate meaningful savings from our efficiency programme, which have offset the material structural inflation that is impacting the hospitality sector. Our strong execution to date has delivered savings of £105 million, which gives us confidence that we can increase our target from £150 million to £250 million, with £100 million to be delivered over the next two years. These additional efficiencies will help to offset a substantial proportion of anticipated inflationary pressures in the next few years.

We are committed to the attractive longer-term structural opportunities for growth in the hotel and coffee markets, both in the UK and internationally. We are therefore continuing to invest throughout our businesses to ensure we retain brand leadership in the UK, build the foundations for long-term international growth and deliver the modern and efficient processes and technology which the businesses need to thrive in the future.

Given recent economic and industry data, we do remain cautious on the consumer environment, especially on the high street, which we expect to remain challenging in the near term. The combination of our commitment to the investment programme and the current UK consumer environment naturally means our near-term profit growth may be lower than in previous years. However, I am confident that this strategy will deliver long-term sustainable growth in earnings and dividends, combined with good return on capital for years to come.

In addition to delivering our ambitious longer-term growth plan, we remain committed to disciplined allocation of capital, maintaining a strong balance sheet and generating excellent cash flow. As a result, the Board is increasing the full-year dividend in line with earnings growth to 101 pence per share.

Today we have issued a market announcement regarding Whitbread's Group structure which covered the separation of Premier Inn and Costa through a demerger of Costa."

Commenting on the demerger of Costa, Alison Brittain, Chief Executive of Whitbread PLC, said: "Given the progress Whitbread is making, we are confident that both Premier Inn and Costa will soon be businesses of sufficient strength, scale and capability to enable them to thrive as independent companies. The Board, therefore, believes that it is in the best long-term interests of Whitbread's many stakeholders to separate Premier Inn and Costa, via a demerger of Costa. We have carefully considered the optimal timing and concluded that it will be pursued as fast as practical and appropriate to optimise value for Whitbread's shareholders and is expected to be completed within 24 months. This will allow both Premier Inn and Costa to maintain momentum, complete critical and complex transformation and infrastructure objectives, and drive international expansion. The management team and I are excited that the strategy we are executing will give us the opportunity to create two high-quality independent businesses that will create long-term value for our stakeholders.

At the point of separation, both businesses will be able to take advantage of the structural growth opportunities available to them in the UK and internationally. Costa will become a listed entity in its own right and the clear market leader in the out-of-home coffee market in the UK. Costa will also be well positioned to build further on its strong international foundations with growth expected in China and Costa Express.

Whitbread will remain the owner and operator of the UK's most successful hotel business. A key priority will be continuing the development of Premier Inn by creating a business of scale in Germany to replicate the success we have in the UK."

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

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

A presentation for investors and analysts will be at 9.30am on 25 April 2018 at Deutsche Bank, 1 Great Winchester Street, London, EC2N 2DB. A webcast of the presentation will be available through www.whitbread.co.uk/investors.

Strategic Review | Strong progress with a clear plan for growth

Whitbread has produced another strong financial performance with Group revenues up 6.1% to £3.3 billion. Underlying profits before tax increased by 4.5% to £591 million, with statutory profit before tax increasing 6.4% to £548 million. This performance has been built on the strength of Whitbread's two UK market-leading businesses which have continued to grow this year, with 4,385 rooms added to the Premier Inn UK network, 204 Costa UK stores and 1,187 UK Express machines added. Premier Inn increased underlying operating profits by 6.5% to £498 million and Costa increased 0.5% to £159 million. A full analysis of financial performance can be found in the Financial Review section below.

Whitbread has a clear plan to deliver long-term growth in earnings and dividends, combined with a strong return on capital. This is achieved through disciplined execution in three key areas:

1. Grow and innovate in the core UK markets for Premier Inn and Costa;
2. Focus on the strengths developed by Whitbread in the UK to grow internationally, in particular Premier Inn in Germany, Costa in China, and Costa Express in multiple countries; and
3. Build and enhance the necessary capabilities and infrastructure to support long-term growth and efficiency.

During the year, significant progress has been made against each of these strategic priorities, further underlining confidence and resolve in delivering the plan for growth.

Summary of strategic progress

	FY18	FY17	*Change*
Premier Inn UK network	72,466 rooms	68,081 rooms	*6.4%*
Costa UK store network	2,422 stores	2,218 stores	*9.2%*
Costa UK Express network	7,248 machines	6,061 machines	*19.6%*
Premier Inn Germany pipeline	5,510 rooms	942 rooms	*n.m.*
Costa China network	449 stores	409 stores	*9.8%*
Costa International Express network	989 machines	740 machines	*33.6%*
Cumulative efficiency savings	c.£105m	c.£40m	

The Board has for some time been fully aligned to the view that separating Premier Inn and Costa at the right time would enhance focus and enable value to be optimised for shareholders over the longer-term. Given the significant strategic progress that has been made and the momentum in the remainder of the plan, the Board is confident that both Premier Inn and Costa will soon be businesses of sufficient strength, scale and capability to enable them to thrive as independent companies. The Board, therefore, believes that it is in the best long-term interests of Whitbread's many stakeholders to separate Premier Inn and Costa, via a demerger of Costa. Announcing the demerger of Costa will provide clarity to shareholders, team members and other stakeholders on Whitbread's strategic direction.

The Board has carefully considered the optimal timing of the demerger of Costa and concluded it will be pursued as fast as practical and appropriate to optimise value for Whitbread's shareholders and is expected to be completed within 24 months. This timeframe will allow both Premier Inn and Costa to maintain momentum, complete critical and complex transformation and infrastructure objectives, and drive international expansion, putting each business in a strong position to create further value as separate entities.

WHITBREAD

1. Grow and innovate in our core UK markets

Premier Inn UK

- Good revenue growth of 5.2% to over £2 billion from market leading occupancy and room growth
- Underlying operating profit increased to almost £500 million through disciplined cost action
- Continued strong occupancy throughout the UK whilst adding significant new capacity
- Industry leading rate of customers booking directly at 97%
- Accelerating the competitive advantage as the UK's best value hotel for business and leisure

Premier Inn UK estate metrics

	FY18	FY17	*Change*
# hotels	785	762	*3.0%*
# rooms	72,466	68,081	*6.4%*
Direct booking	97%	96%	*1ppt*
Occupancy	79%	80%	*(1)ppt*
Average room rate†	£62.87	£62.02	*1.4%*
Revenue per available room†	£49.85	£49.77	*0.2%*
Total accommodation† and food & beverage† ("F&B") revenue growth	5.4%	4.6%	*80bps*
Like-for-like† accommodation sales growth*	2.2%	2.5%	*(30)bps*
Return on capital	13.4%	13.0%	*40bps*
Committed pipeline (rooms)	14,750	14,500	

** Like-for-like sales growth for FY17 reflects refined definition*

Over the past three years Premier Inn has added more than 13,700 new rooms in the UK, 2.5 times more than the combined total added by Travelodge, Holiday Inn Express and Ibis[2]. Against this material addition of new capacity, Premier Inn has held occupancy at industry leading levels, increased the proportion of customers booking directly to 97%, improved guest feedback scores and increased return on capital to 13.4%.

Premier Inn's committed pipeline of new freehold and leasehold hotels currently stands at over 14,700 rooms. Combined with the current estate of c.72,500, Premier Inn expects to have c.85,000 rooms by 2020 with line of sight beyond that to 100,000. Premier Inn's network planning and property expertise have been paramount in delivering high quality new capacity at good returns. The skills and data available to Premier Inn enable the ongoing delivery of new capacity in attractive locations, without diluting return on capital once the hotel matures. Of the committed new room pipeline:

- 40% will be opened in catchments with no existing Premier Inn supply;
- 30% will be opened in catchments with limited Premier Inn supply; and
- 30% will be opened in catchments with higher Premier Inn supply but also higher demand such as London and city centres.

Over the previous three years, Premier Inn has opened almost 4,000 London rooms with total accommodation sales growth for FY18 of 9.1% whilst maintaining an excellent occupancy level of 83%. In the regions, over 9,700 rooms (including 2,900 from extensions to existing properties) have been opened in the previous three years with total accommodation sales growth in FY18 of 6.6% and occupancy at 79%. This significant network growth has been delivered whilst maintaining a good return on capital. Combined with a food and beverage offer integral to the Premier Inn experience, total Premier Inn revenue (including F&B) grew 5.4% in FY18 to just over £2 billion.

A consistent and high-quality experience is vital to the overall Premier Inn customer offer. Many of Premier Inn's customers visit multiple hotels every year and value a consistent experience across the network of 785 hotels. Therefore, the ongoing refurbishment of rooms is critical to ensure consistency. To balance the demands of customers for consistent high quality and the capital required to deliver this, Premier Inn has developed a more efficient model to refurbish rooms. This has resulted in faster refurbishment, which minimises disruption and lowers the refurbishment cost by more than 30%. This has enabled Premier Inn to have 87% of its 72,466 rooms in the latest formats.

Core to Premier Inn's success has been its investment in digital capabilities. This began with re-platforming Premier Inn's core trading website, introducing a yield management system, investing in enhanced digital marketing capabilities and introducing a business-focused booking tool which took over 500,000 bookings in the year. As a result, the number of visits to Premier Inn's website has increased to seven million visits per month, whilst consistently retaining over 85% of total bookings directly through Premier Inn's digital channels.

Costa UK

- Strong UK revenue growth of 7.3% delivered through disciplined delivery of new outlets
- Consistently strong growth of Costa Express with UK total sales increasing 18% to £210 million
- Underlying UK operating profit of £151 million as cost pressures and a challenging consumer environment are mitigated by the investment in new capacity and efficiency savings
- Good progress in rebalancing UK store network to convenience-based channels & locations
- Food range enhancement gaining traction with over 1ppt increase in food capture rate
- New point-of-sale till rollout substantially complete in all UK stores

Costa UK metrics

	FY18	FY17	*Change*
# high street stores	455	441	*3.2%*
# shopping centres & retail park stores	409	383	*6.8%*
# drive thru stores	81	54	50.0%
# concessions & transport & office stores	427	402	6.2%
# franchise stores	1,050	938	*11.9%*
# Costa Express machines	7,248	6,061	*19.6%*
UK equity stores like-for-like sales growth*	(0.4)%	2.0%	*(240)bps*
UK Express like-for-like sales growth	7.2%	n.m.	*n.m.*
Total UK like-for-like sales growth	1.2%	n.m.	*n.m.*
Return on capital	46.0%	45.4%	*60bps*

** Like-for-like sales growth for FY17 reflects refined definition*

Costa is part-way through a multi-year transformation programme designed to improve the customer experience through innovation in the coffee and food offer, investing in the stores and broadening the channels in which Costa operates. During the year, despite the well-publicised level of external challenges from decreased footfall in traditional shopping locations and increased levels of inflation, Costa has made significant progress in its transformation.

Fundamental to Costa's ongoing success in the UK is ensuring it can serve coffee to customers when and where they want it. Traditionally, this was primarily in high street and shopping centre locations. With increased adoption of coffee, consumers are demanding a more convenient purchase. Costa has been fulfilling this demand with the majority of new capacity being added to retail parks, drive-thrus, transport locations and Costa Express machines. Costa's economic model of high return on capital and short, flexible lease structures ensures that Costa can continue to tailor the store portfolio toward these high-growth areas.

With changing consumer preference for convenience and shorter-term pressures on consumer confidence, many of Costa's stores in traditional shopping locations are experiencing declining like-for-like sales. In these destinations Costa can limit the impact of declining footfall through enhancing the overall customer offer and increasing average transaction values. Costa expects this trend to continue in the medium term. However, with a total return on capital in excess of 45%, less than 2% of the Costa estate (just 29 stores) makes a cash loss. With short leases Costa has flexibility to churn these sites to better locations or negotiate lower rent.

Costa has made significant progress in delivering new and innovative food and coffee ranges, with a good uplift in the savoury food capture rate following the launch of a new breakfast offering in May. This uplift was sustained with an improved salad range available in stores from June and a new hot lunch range launched in September. The overall food capture rate for the Costa UK equity business increased by 1ppt to 42.6%.

The Costa point-of-sale terminal upgrade programme is now also substantially complete and has allowed us to trial mobile order & collect in 16 London stores. The new terminals will enhance the customer experience through faster transaction times and greater menu flexibility, enable new initiatives to enhance store efficiency, and improve customers' digital experience including the trial of mobile order & collect. In addition, Costa will also begin to trial the use of targeted offers to the five million active Costa Club loyalty programme members. Costa is also trialling the connection of the loyalty programme to Express machines, which has the potential to increase the number of Express customers visiting stores to redeem points.

2. Focus on strengths to grow internationally

Premier Inn Germany **|** *Significant agreed acquisition of 19 hotels to accelerate network growth*

The German hotel market is 35% larger than the UK and similar to the UK ten years ago and it is experiencing a structural shift from independent hotels to branded hotels. The branded budget hotel sector is the fastest beneficiary of this shift, but still only represents a 6% market share, compared to 24% in the UK. With only moderate growth expected from other brands, Premier Inn's strong quality and value credentials provide a long-term opportunity to establish a major hotel brand and develop a successful business of scale in this attractive market.

Given the scale and attractive nature of the opportunity in Germany, Whitbread accelerated the development of an organic new hotel pipeline and announced a significant agreed acquisition of a portfolio of hotels. Together, the organic pipeline and acquisition will deliver 31 hotels, comprising 5,720 rooms across 15 key cities, by 2021.

This acquisition represents an important step in accelerating Whitbread's existing international strategy and in replicating Premier Inn UK's success and network scale in this key strategic market. Whitbread will continue to explore options to further accelerate growth in Germany, through a mix of freehold property developments, leasehold sites and acquisitions of small existing hotel portfolios.

The transaction and consideration are conditional upon obtaining consent from landlords to rebrand the hotels and upon the termination of the franchise agreements with the current franchisor. This could take up to two years for the 13 trading hotels. The hotels being acquired will continue trading under their current brand, in advance of being refurbished in to the Premier Inn brand. 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 now a mix of hotels to be acquired and the accelerated organic pipeline of new leasehold and freehold sites.

	Organic	*To be acquired*	***Total***
Open and trading	1 hotel *(210 rooms)*	13 hotels *(2,140 rooms)*	**14 hotels *(2,350 rooms)***
Committed pipeline	11 hotels *(2,400 rooms)*	6 hotels *(970 rooms)*	**17 hotels (3,370 rooms)**
Total	**12 hotels *(2,610 rooms)***	**19 hotels *(3,110 rooms)***	**31 hotels *(5,720 rooms)***

Costa China **|** *Completed buy-out of South China joint venture partner*

On 10 October 2017 Whitbread announced the buy-out of the 49% share in the South China joint venture held by Yueda for RMB 310 million (£35 million). The South China operation comprises approximately 250 stores. The partnership with Yueda was essential in the first phase of Costa's development in China, but full control enables a greater level of focus on improving the overall proposition and reshaping the store network to have broader and deeper representation in key cities. Costa's strong joint venture partnership with BHG in North China will continue unaffected.

Work to improve the proposition in China has continued alongside the ownership changes, to ensure store level economics support the strong growth planned. Following trials last year, with new store formats, products and enhanced team training, the performance has been pleasing. In line with the strategy to focus on core cities, 39 stores were closed in the year. The experience gained from Costa's trials provides confidence in the customer offer and the opportunity to extend the store network to more than 1,200 stores by 2022, with significant opportunity beyond this over the longer term.

Other international activity

Whitbread has now completed the exit of all non-core international operations for both Premier Inn and Costa. This activity has included the closure of the equity-owned Costa business in France and the disposal and exit of all 11 hotels and management agreements in India, Thailand, Singapore and Indonesia. These exits have been completed slightly ahead of previous financial guidance and now enable the teams to focus international efforts on developing Premier Inn in Germany and Costa in China.

Costa Poland performed well with stores and Express machines in like-for-like sales growth. There are now approximately 140 Costa stores across 22 cities and nearly 300 Express machines. During the year, new products were successfully launched including bacon baguettes and cold brew coffee.

Costa Express continued its international expansion with a further 200 machines in Europe, the Middle East and Malaysia. The entry into Malaysia has been received well following a tailored launch with iced coffees, and over 150 machines installed to date. There are now around 1,000 machines in six countries and, although the business in Canada will be exited, there are a further three countries in trial.

Premier Inn in the Middle East continues to perform well against tough market conditions, with good occupancy levels and strong customer feedback. Premier Inn has a productive partnership with Emirates, with a hotel recently opened in Doha, comprising 219 rooms, and plans for one further 389-room hotel in Dubai, due to open in FY19. Costa in the Middle East has also experienced tough market conditions, resulting in a decline in sales during the year.

3. Build capability to support long term growth

Whitbread is focused on securing the cost efficiencies needed to offset structural cost pressures in the hotel and coffee markets. Whitbread's property expertise underpins the consistent quality and competitive advantage enjoyed by both Premier Inn and Costa over rivals, whilst Whitbread's technology skills have undergone a step-change as work is conducted to replace legacy systems and become an increasingly technologically-enabled and effective business.

Winning teams

The breadth and scale of Whitbread facilitates superior attraction and retention of talented people. As Whitbread entered a new phase of growth, a different mix of skills has been required. The Executive Team was completed in September with the appointment of a new Group Transformation Director, responsible for improving Whitbread's supply chain, procurement and IT shared service capability.

A lean central Group team provides governance and strategic oversight and Whitbread's shared services facilitate transformation and efficiency programmes across the IT, procurement and supply chain functions. For the next two years this structure will provide the Premier Inn and Costa management teams a significant amount of freedom to focus on delivering growth and innovation in Whitbread's UK and International markets.

Everyday efficiency

In 2016 Whitbread began a five-year programme to generate £150 million of efficiency savings and mitigate inflationary cost pressures. This programme has already delivered £105 million of savings from a combination of procurement benefits and shared services. During the year, more than £65 million of savings were achieved through structural reorganisation, store and site efficiency, procurement and supply chain savings and process re-engineering. The next phase of activity will involve further shared procurement and evolving the supply chains for both Premier Inn and Costa. Whitbread's progress so far and confidence in the next phase of activity, has enabled an increase in ambition from £150 million of savings to £250 million, with £100 million to be delivered over the next two years. This will help to offset a substantial proportion of the inflationary pressures over the coming years.

Improving technology capabilities

Over the last two and a half years, Whitbread has undergone a significant investment programme to improve the core infrastructure, internal support systems and customer facing systems in both Premier Inn and Costa. This programme has been delivered by a newly created shared support team, ensuring Whitbread has the scale and capabilities to deliver. So far, the Group-wide technology team has:

- substantially completed the upgrade of all Costa point-of-sale terminals;
- upgraded Costa's loyalty data management system;
- re-platformed Premier Inn's core trading website;
- implemented a yield management system for Premier Inn;
- delivered new mobile applications for both Costa and Premier Inn;
- replaced Premier Inn's core finance systems; and
- installed workforce planning systems for both Costa and Premier Inn's F&B operations.

Further essential work still needs to be done, and for the next 24 months the focus remains on the complex process of replacing legacy systems with sustainable platforms that meet customer demands and enable operational efficiencies and innovation. This vital work includes:

- leveraging the expertise in the shared digital team to extend the Costa mobile order & collect trial and further enhance the offering to its five million loyal customers;
- replacing Costa's legacy finance systems to allow greater efficiency and insight, utilising knowledge gained from Premier Inn's recent successful finance transformation;

- replacing legacy HR systems across Premier Inn and Costa, supporting team retention and efficiencies; and
- in Premier Inn, replacing its hotel booking system by 2020.

Property expertise
Premier Inn's success in the UK has been delivered through its unique asset-backed, owner-managed model. The balanced property ownership model provides Premier Inn significant competitive advantages, including:

- superior market access with flexibility to acquire freehold sites without additional external finance and favourable leasehold access;
- a proven model of value creation through capture of development profit and the ability to extend and refurbish hotels;
- low-cost funding, with corporate debt costs lower than leasehold finance and the ability to recycle capital through selective sale and leaseback transactions; and
- ensuring a strong and flexible operating model with lower financial gearing, avoidance of rent escalation and underpins Whitbread's credit rating, covenant strength and pension.

Costa's success in the UK and internationally has also been a consequence of Whitbread's successful property strategy. Whitbread's asset-backed model, combined with prudent leverage and strong operating businesses, ensures Whitbread has a superior covenant in negotiating for leased sites for Costa stores. As a result, Costa is supported with a material competitive advantage through enhanced access to sites at attractive rates.

Whitbread is also actively managing its property portfolio and has completed four sale and leaseback transactions over the last two years with total cash proceeds to date of £242 million. Sale and leaseback transactions are appropriate for properties which have fulfilled their development potential and can secure attractive rental yields. The level of sale and leaseback transactions will continue to be reviewed subject to disposal opportunities in the UK and investment opportunities in the UK and Germany. In line with Premier Inn's strategy of operating F&B outlets which complement the Premier Inn proposition, seven standalone restaurants have also been sold, with 16 remaining.

A Force for Good
The Force for Good programme, launched in July 2017, replaces the previous programme and will build on success to date. It is an even bigger and better forward-looking sustainability programme with an ambitious vision to 'enable everyone to live and work well'. The programme is centred around this vision and focuses on three core themes:

- providing a working environment where all team members can reach their potential;
- making meaningful contributions to the communities in which Whitbread operates; and
- treating people and the environment with respect.

Over 3,000 full apprenticeships have been achieved since 2009 and more than 800 are currently underway. To date, over 11,000 qualifications have been gained.

The Premier Inn team has partnered with Great Ormond Street Hospital Children's Charity since 2012. Over the years the Premier Inn team, customers and suppliers have raised more than £10 million, £7.5 million of which has gone towards the new Premier Inn Clinical Building which was opened in January 2018.

For the past ten years, Costa teams have supported the work of the Costa Foundation. Their fundraising activity has enabled the Foundation to provide children an education they otherwise wouldn't have had by delivering 78 new school projects in ten coffee-growing countries. To date, more than 60,000 children have benefitted from the chance to access a safe, quality education.

As a business operating in communities throughout the UK and across the world, Whitbread is committed to playing a part in making them great places to live, work and do business. From donating space to local groups, to organising community clear-up projects, Whitbread's community activities enable teams across the business to make a real difference, personally. Costa store teams have now given over 40,000 hours of meaningful engagement in their local communities.

Whitbread is committed to treating the environment with respect and is particularly proud of the nationwide in-store coffee cup recycling scheme launched in 2017. The scheme recycles Costa cups, but also those from other brands, and to date over 13 million cups have been collected for recycling. In addition to the in-store scheme, Costa has announced a commitment to recycle 500 million cups per year by 2020, becoming 'cup neutral'. In partnership with major national waste collectors, Costa will pay a supplement of £70 for every tonne of cups collected, making it commercially attractive for waste collectors to put in place the infrastructure required to collect, sort and transport used cups to recycling plants.

Costa is also the first coffee shop brand to announce that plastic straws will be replaced with a non-plastic alternative in 2018 and also became the first national company to sign up to the Refill campaign to help address the issue of plastic waste.

This year, Whitbread has moved to a 100% renewable energy supply contract and all electricity now comes from sustainable sources including wind and hydro power.

Long-term ambition

Whitbread has achieved a significant amount in the past two years to improve capabilities and ensure a strong platform is in place to deliver sustainable growth over the medium term in the UK and internationally. Progress has been made whilst maintaining a strong balance sheet, growing revenue and earnings and maintaining a strong return on capital.

In the UK, Premier Inn has a secure pipeline to 85,000 rooms and a clear opportunity to grow beyond 100,000 rooms. Despite significant capacity growth, Premier Inn remains the hotel group with the highest value for money scores. Costa has made good progress in building a pipeline of innovation for new drinks, new food ranges, improvements in digital technology and investment in store standards. These improvements enable Costa to continue to be the UK's favourite coffee shop[3] and grow to 3,000 UK stores over the longer term.

Internationally, Premier Inn's expansion into Germany has accelerated and a strong foundation has been established to enable longer-term growth and replicate the success of Premier Inn in the UK. Costa in China is now in a stronger position to deliver its plans following the buyout of its joint venture in South China, combined with its existing successful partnership with BHG in North China.

Investing in Whitbread's capabilities to achieve these ambitious plans has continued, but more remains to be done. Supply chain development, procurement efficiency and technology advancements are now possible following the improvements in the team over the past two years. The property strategy has been refined, with an increase in sale and leaseback transactions, whilst remaining majority freehold in the Premier Inn estate. These improvements enable the two businesses to deliver long term, sustainable growth in earnings, combined with strong return on capital.

Update on Group structure | Creating two high-quality independent companies

The Board regularly reviews the strategic direction of Whitbread and the structure of the Group. These reviews are designed to protect and enhance the long-term value of the businesses within Whitbread for its shareholders and to ensure that the businesses continue to effectively and responsibly serve their customers and communities. This approach has delivered considerable long-term returns for shareholders, created substantial employment and career opportunities for Whitbread's team members, and played a part in the daily lives of millions of consumers throughout the UK and internationally.

The Board has for some time been of the view that separating Premier Inn and Costa at the right time would enhance focus and enable value to be optimised for shareholders over the longer term. Given the significant strategic progress that has been made and the momentum in the remainder of the plan, the Board is confident that both Premier Inn and Costa will soon be businesses of sufficient strength, scale and capability to enable them to thrive as independent companies. The Board, therefore, believes that it is in the best long-term interests of Whitbread's many stakeholders to separate Premier Inn and Costa, via a demerger of Costa. Announcing the demerger of Costa will provide clarity to shareholders, team members and other stakeholders on Whitbread's strategic direction.

The Board has carefully considered the optimal timing of the demerger of Costa and concluded it will be pursued as fast as practical and appropriate to optimise value for Whitbread's shareholders and is expected to be completed within 24 months. This timeframe will allow both Premier Inn and Costa to maintain momentum, complete critical and complex transformation and infrastructure objectives, and drive international expansion, putting each business in a strong position to create further value as separate entities. These objectives include:

- completing the complex and critical IT and business system upgrades and improvement programmes, which are delivered by Whitbread shared resources;
- delivering the recently upgraded efficiency programme, which will offset a significant proportion of the current high level of industry inflation and minimising disruption to trading and product innovation activities, particularly in the UK;
- further develop the international strategies in both Premier Inn and Costa, to build the foundations for long-term profitable growth; and
- appropriately managing the Whitbread pension fund deficit and funding facilities and ensuring both Whitbread and Costa have appropriate governance structures in place to thrive as separate entities.

Regular updates on progress will be given as part of Whitbread's standard financial reporting cycle.

Financial Review

Whitbread | Good financial performance in line with expectations

- Strong revenue growth of 6.1% and market share gains in both Premier Inn and Costa
- Disciplined cost management enabling underlying profit growth of 4.5% to £591 million, and statutory profit before tax growth of 6.4% to £548 million
- Premier Inn underlying operating profit grew to £498 million, Costa increased to £159 million
- Good discretionary free cash flow conversion of 94%, delivering £585 million to reinvest
- Strong balance sheet with net debt† reduced to £833 million
- Return on capital increased 20bps to 15.4%, despite scale of recent investment

Profit growth | Good sales growth and disciplined cost control underpins profit growth

	FY18	FY17	*Change*
Revenue	£3,295m	£3,106m	*6.1%*
Profit from operations	£657m	£626m	*5.0%*
Central costs	£(35)m	£(34)m	*4.5%*
Underlying operating profit	**£622m**	**£592m**	***5.0%***
Underlying net finance costs†	£(31)m	£(27)m	*(15.4)%*
Underlying profit before tax	**£591m**	**£565m**	***4.5%***
Non-underlying items	£(43)m	£(50)m	*15.1%*
Profit before tax	**£548m**	**£515m**	***6.4%***
Tax	£(112)m	£(99)m	*(12.6)%*
Net profit	**£436m**	**£416m**	***4.9%***

Whitbread has again delivered good results, with underlying profit before tax up 4.5% to £591 million and underlying basic earnings per share up 5.6% to 260.16p, driven by a combination of revenue growth of 6.1% to £3,295 million and disciplined cost control. Statutory profit before tax increased 6.4% to £548 million and total basic earnings per share grew 3.6% to 239.74p. Both Premier Inn and Costa have increased market share, with underlying operating profit up 6.5% to £498 million in Premier Inn and 0.5% to £159 million in Costa. Good discretionary free cash flow conversion of 94% delivered £585 million to re-invest and, despite the scale of re-investment, the Group return on capital increased by twenty basis points to 15.4%.

Premier Inn | Continued strong financial performance

- Good revenue growth of 5.2% to over £2 billion from market leading occupancy and room growth
- Underlying operating and statutory profits increased to almost £500 million through disciplined cost action
- Consistent and disciplined investment in fast-maturing new rooms with good return on capital
- Strong 40bps increase in return on capital to 13.4%, reflecting good profit growth

Premier Inn financial highlights

	FY18	FY17	*Change*
Revenue	**£2,007m**	**£1,908m**	***5.2%***
UK & Germany (inc. F&B)	£2,004m	£1,902m	*5.4%*
International	£3m	£6m	*n.m.*
Underlying operating profit	**£498m**	**£468m**	***6.5%***
UK & Germany (inc. F&B)	£498m	£472m	*5.7%*
International	£0m	£(4)m	*n.m.*
Statutory profit before tax	**£498m**	**£457m**	***8.8%***
Other metrics			
UK accommodation† total sales growth	7.1%	6.9%	*20bps*
UK F&B† total sales growth	2.5%	0.7%	*180bps*
Premier Inn (inc. F&B) total sales growth	5.2%	4.7%	*50bps*
UK accommodation like-for-like sales growth	2.2%	2.5%	*(30)bps*
UK F&B like-for-like sales growth	0.4%	0.3%	*10bps*
Q4 UK accommodation like-for-like sales growth	0.3%	2.9%	*(260)bps*
Q4 F&B like-for-like sales growth	(1.1)%	0.6%	*(170)bps*
Return on capital	**13.4%**	**13.0%**	***40bps***

Premier Inn (including food & beverage revenue) performed well during the year, with revenue increasing 5.2% to £2,007 million (FY17: £1,908 million) and underlying operating profit growing 6.5% to £498 million (FY17: £468 million). This growth in profits led to an increase in return on capital to 13.4% (FY17: 13.0%), despite further capital investment in Premier Inn of £410 million.

In the UK & Gemany, Premier Inn (including F&B) increased revenue by 5.4% to £2,004 million (FY17: £1,902 million) and grew underlying operating profit at a faster rate of 5.7% to £498 million (FY17: £472 million). Accommodation revenue growth of 7.1% was a mix of good like-for-like sales growth and the benefit of new hotels opened in the last 12 months. Like-for-like accommodation sales growth of 2.2% (FY17: 2.5%) was the result of an increase in the average rate charged per room of 1.4% to £62.87 (FY17: £62.02) and the benefit of hotel extensions, offset by a modest reduction in occupancy to 79.3% (FY17: 80.2%). Like-for-like RevPAR was up 0.3% with RevPAR in catchments with no Premier Inn capacity growth up c.1.7%, comparable with the midscale and economy market RevPAR growth of 2.0%.

In London, Premier Inn grew well with total accommodation sales up 9.1%, with 12.5% growth coming from additional room capacity. With high occupancy and the additional capacity added, like-for-like RevPAR declined by (1.3)% and like-for-like sales by (0.9)%, compared to the midscale and economy market where RevPAR increased 0.9%.[4]

Outside London, Premier Inn's total accommodation sales growth was again strong, increasing 6.6%, with like-for-like RevPAR increasing 0.9% and like-for-like sales growth of 3.0%, supported by c.800 extension rooms opened over the last 12 months. The midscale and economy market RevPAR increased 2.3%.[4]

In the second half of the year, the pace of like-for-like accommodation sales growth slowed, in line with a general softening across the midscale and economy hotel market, particularly in London. Comparatives were particularly challenging following strong growth in H2 FY17 due to a weak pound, compounded by an increase in the rate of market supply growth in H2. However, with total accommodation sales growth in the second half of this year at 7.0% for London and 5.2% outside London, Premier Inn continued to gain market share through adding capacity in the right locations, and at a strong return on capital.

During the year, the hospitality industry experienced significant inflationary pressures arising from the increase in business rates and a higher National Living Wage. In total, this led to a cost increase of c.£55 million, impacting underlying operating profit margin by 280 basis points. However, this inflation was substantially offset by the efficiency programme, which benefitted from some acceleration in savings. Increased sales and new capacity contributed 90 basis points, more than offsetting the additional investments in IT and refurbishment. This resulted in an increase in overall underlying operating margin from 24.5% in FY17 to 24.8% in FY18.

The food and beverage offer comprising Whitbread's restaurant brands and integrated Premier Inn restaurants is integral to the overall Premier Inn experience. F&B revenue grew 2.5%, with like-for-like sales growth of 0.4% (FY17: 0.3%). Like-for-like growth was a result of all Beefeater restaurants now being refurbished to the latest 'orange cow' format; enhancements to menus across Thyme, Beefeater and Brewers Fayre restaurants; and increased focus on value in all F&B formats, driving an increase in covers.

During the year, the exit of all hotels in India, Thailand, Singapore and Indonesia was completed. As a result of these exits, underlying operating losses from Premier International reduced to nil (FY17: £(4) million).

After non-underlying items of £(0.9) million, statutory profit before tax increased 8.8% to £498 million (FY17: £457 million). Non-underlying items in Premier Inn consisted of a net cost of £6 million relating to the disposal of properties and property-related provisions, over £1 million of UK restructuring costs, offset by a gain of more than £6 million recognised following the exit of operations in India and South East Asia. Further details on non-underlying items can be found in Note 5 to the financial statements.

Costa | Strong network growth and high return on capital

- Strong revenue growth of 7.5% delivered through disciplined delivery of new outlets
- Positive like-for-like sales growth in Costa Express offsetting the lower high street footfall
- Consistently strong growth of Costa Express with UK total sales increasing 18% to £210 million
- Steady underlying operating profit of £159 million with cost pressures mitigated through efficiencies, and continuing investment for the future, in a strong coffee market
- Costa International profits increased to £8 million driven by European equity and franchise operations
- Statutory profit before tax down 5.5% to £123 million
- Excellent return on capital of 46.0%

Costa financial highlights

	FY18	FY17	*Change*
Revenue	**£1,292m**	**£1,202m**	***7.5%***
UK Stores	£921m	£876m	*5.2%*
UK Express	£210m	£178m	*18.0%*
Total UK	£1,131m	£1,054m	*7.3%*
International	£161m	£148m	*8.5%*
Underlying operating profit	**£159m**	**£158m**	***0.5%***
Total UK	£151m	£154m	*(2.3)%*
International	£8m	£4m	*n.m.*
Statutory profit before tax	**£123m**	**£130m**	***(5.5)%***
Other metrics			
UK equity like-for-like sales growth	(0.4)%	2.0%	*(240)bps*
UK Express like-for-like sales growth	7.2%	n.m.	*n.m.*
UK total like-for-like sales growth	1.2%	n.m.	*n.m.*
Q4 UK equity stores like-for-like sales	(1.8)%	(0.8)%	*(100)bps*
Q4 UK Express like-for-like sales growth	5.5%	n.m.	*n.m.*
Q4 UK like-for-like sales growth	(0.3)%	n.m.	*n.m.*
Return on capital	**46.0%**	**45.4%**	***60bps***

Costa revenue increased at a strong rate of 7.5% to £1,292 million (FY17: £1,202 million). Recent significant increases in industry cost structures were offset by efficiency savings, whilst investment continued in the UK customer proposition, IT infrastructure, and in establishing international growth platforms. Against this backdrop, underlying operating profit grew by 0.5% to £159 million (FY17: £158 million). Fundamentally strong unit economics in both the Costa UK stores and Costa Express businesses resulted in an excellent return on capital of 46.0% (FY17: 45.4%).

In the UK, Costa increased revenue by 7.3% to £1,131 million (FY17: £1,054 million). This strong sales growth was principally driven by the addition of 204 net new stores, and the continued strong performance of Costa Express, which grew revenues by 18% to £210 million (FY17: £178 million). Like-for-like sales in the UK grew by 1.2%, benefitting from a strong performance in Express. Like-for-like sales in UK equity stores, whilst declining by (0.4)%, performed better than footfall trends in traditional shopping locations. This relative outperformance was primarily a result of increased spend per transaction supported by the ongoing improvements in the food offer and the introduction of new drinks.

Costa UK underlying operating profit declined by (2.3)% to £151 million (FY17: £154 million); in line with previous margin guidance which signposted both external cost pressures and a meaningful period of investment in technology platforms, digital propositions and product innovation, culminating in an incremental c.£10 million invested in the year. A mix of significant increases in labour costs, business rates and the foreign exchange impact on coffee imports was fully offset by efficiency savings.

Costa's international contribution to underlying operating profit increased to £8 million (FY17: £4 million). This followed a good performance in Poland and European franchise markets and the exit from our loss-making equity business in France. This was partially offset by a more challenging environment in the Middle East and increased investment in Costa's business in China following the buy-out of its Southern China joint venture partner at the beginning of the second half of the year. In China, an incremental investment of £5 million in operating cost is anticipated in FY19 on new stores, marketing, product innovation and digital capabilities. With the success of Express in the UK, and the opportunity ahead of us internationally, a similar incremental investment in the international Express business is also anticipated as new international markets are established.

After non-underlying items of £(36) million, Costa's statutory profit before tax decreased (5.5)% to £123 million (FY17: £130 million). Non-underlying items in Costa consisted of impairment charges and property provisions of £17 million in relation to underperforming stores, an impairment charge of £9 million for IT projects, and £6 million of costs principally related to the restructuring of Costa's international businesses in China, France, Singapore and Canada (see Note 5 to the financial statements).

Net finance costs

The underlying net finance cost for the year was £4 million higher than last year at £31 million (FY17: £27 million) following the successful £200 million US private placement and lower interest capitalised on construction projects.

Total net finance costs were £41 million (FY17: £37 million) including the non-underlying IAS19 pension finance charge of £10 million (FY17: £9 million).

Taxation

Underlying tax for the year amounted to £117 million at an effective tax rate of 19.8% (FY17: 21.1%). The decrease in effective tax rate is predominantly due to a reduction in the statutory rate of UK corporation tax from 20% to 19%. The statutory tax expense for the year was £112 million (FY17: £99 million)

Earnings per share

	FY18	FY17	*Change*
Statutory basic earnings per share	239.74p	231.39p	*3.6%*
Statutory diluted earnings per share	239.08p	230.89p	*3.5%*
Underlying basic earnings per share	260.16p	246.48p	*5.6%*
Underlying diluted earnings per share	259.44p	245.95p	*5.5%*

Full details are set out in Note 7 to the financial statements.

Dividend

The Group's dividend policy is to grow the dividend broadly in line with earnings across the cycle. A final dividend of 69.75 pence per share (FY17: 65.9p), an increase on last year of 5.8%, amounting to £127 million, was declared by the Board on 24 April 2018. Full details are set out in Note 8 to the financial statements. The dividend will be paid on 4 July 2018 to all shareholders on the register at the close of business on 25 May 2018. Shareholders will again be offered the option to participate in a dividend re-investment plan.

Cash generation | Consistent & strong to fund investments

	FY18	FY17
Underlying operating profit	**£622m**	**£592m**
Depreciation and amortisation	£230m	£218m
Other non-cash items	£13m	£15m
Change in working capital	£12m	£35m
Cash generated from operations	**£877m**	**£860m**
Maintenance capital expenditure	£(159)m	£(206)m
Interest	£(34)m	£(35)m
Tax	£(99)m	£(87)m
Discretionary free cash flow	**£585m**	**£532m**
Pensions	£(101)m	£(90)m
Dividends	£(178)m	£(167)m
Expansionary capital expenditure	£(396)m	£(404)m
Proceeds from sale & leaseback transactions	£75m	£193m
Proceeds from disposal of business	£57m	£14m
Other	£15m	£(58)m
Net cash flow	**£57m**	**£20m**
Opening net debt	£890m	£910m
Closing net debt	**£833m**	**£890m**

Cash generation remained strong in the year with cash generated from operations increasing to £877 million (FY17: £860 million) whilst converting 94% of underlying operating profit into discretionary free cash. This discretionary free cash flow was used to fund Whitbread's pension contributions of £101 million, dividend payments of £178 million and expansionary capital expenditure of £396 million.

Capital investment | Compelling opportunities to invest at high return on capital

	FY18	FY17	*Last 2 years*
Maintenance and product improvement			
Premier Inn	£118m	£148m	*£266m*
Costa	£41m	£58m	*£99m*
Growth			
New / extended UK hotels	£227m	£303m	*£530m*
Premier Inn Germany & International	£65m	£35m	*£100m*
New Costa stores	£47m	£41m	*£88m*
South China JV buy-out	£35m	-	*£35m*
Express machines	£22m	£25m	*£47m*
Total	**£555m**	**£610m**	***£1,165m***

Capital expenditure during the year was £555 million (FY17: £610 million). The year-on-year reduction was principally due to the timing of new hotels and hotel refurbishments.

Investments in new and extended hotels mature over a 1-3 year period and deliver return on capital above 13%. 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. In the last two years, £530 million has been invested in expanding the UK network with a further £100 million spent on the organic pipeline in Germany. Capital expenditure for Premier Inn Germany does not reflect any amounts for the recently announced agreement to acquire a portfolio of hotels, which will be accounted for on completion of the transaction. In the unlikely event the transaction does not proceed, a break fee would become payable which would be accounted for at that time.

The pace of investment in new Costa stores and Costa Express machines continued in the year, with a further £47 million of capital on new stores and £22 million on new Express machines. New Costa stores take 1-3 years to reach maturity and deliver return on capital of 30-40%.

Capital expenditure for FY19 is expected to be in the region of £600 million to £700 million with a relatively higher allocation to Costa as the pace of UK store refurbishment accelerates and we continue to grow Costa Express unit numbers.

Capital discipline | Asset-backed balance sheet provides flexibility

	FY18	H1 FY18	FY17
Net debt	£833m	£852m	£890m
Pension (net of tax)	£264m	£335m	£377m
Capitalised leases†	£2,227m	£2,128m	£2,058m
Adjusted net debt	**£3,324m**	**£3,315m**	**£3,325m**
Freehold / leasehold mix	64:36%	64:36%	64:36%
Adjusted net debt : EBITDAR†	2.9x	3.0x	3.2x
Net debt : EBITDA†	1.0x	1.0x	1.1x
Fixed charge cover†	2.9x	3.0x	3.0x

In recent years, Whitbread has held its ratio of lease-adjusted net debt to EBITDAR at between 3.0 and a maximum of 3.5. This level ensures that Whitbread retains 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, including the recently agreed acquisition in Germany. This level of leverage also ensures that Whitbread retains a strong covenant for further leasehold expansion and that the pension trustee is comfortable with Whitbread's ability to adapt to periods of volatility or economic slowdown.

Whitbread's scale, balance of business activities and asset-backed leverage provides robust financial capacity and minimises the overall weighted cost of capital, providing significant value to shareholders whilst preserving through-cycle stability. Sufficient headroom in debt funding facilities are also in place to finance short and medium-term requirements with total committed facilities of approximately £1.8 billion, compared to net debt as at 1 March 2018 of £833 million. Committed debt facilities include US Private Placement loans of £432 million (at the hedged rate), a £450 million bond and a syndicated bank revolving credit facility ("RCF") of £950 million which has been extended to September 2022.

Pension
As at 1 March 2018 there was an IAS19 pension deficit of £289 million, which compares to £425 million at 2 March 2017. The reduction in deficit of £136 million was primarily due to deficit contributions of £101 million and a change in mortality rate assumptions following the triennial review.

Following the triennial review undertaken at 31 March 2017, a recovery schedule of cash contributions has been agreed at £85 million per annum for FY19 to FY22, with a final contribution of £57 million in FY23. Until the next valuation, to the extent that ordinary dividends increase by more than 5% per year, contributions will be accelerated at a rate in line with dividend growth, less 5%. Additional contributions to the pension fund of c.£10 million per year will continue to be made through the Scottish Partnership arrangements.

Return on capital | Consistently delivering above cost of capital

	FY18	FY17	Change
Premier Inn	13.4%	13.0%	*40bps*
Costa	46.0%	45.4%	*60bps*
Whitbread	**15.4%**	**15.2%**	*20bps*
Impact on the Group of capital invested for future openings	(110)bps	(170)bps	*60bps*

There is currently £292 million of capital invested for future openings. This has an impact on Whitbread's reported return on capital of (110)bps.

FY19 outlook

Whitbread has significant structural growth opportunities in the UK and internationally with confidence in its plans. Investment in the businesses will continue in order to maintain their competitive advantage and to capitalise on these structural opportunities. However, given recent economic and industry data, along with inflationary pressures in the consumer sector, there is a degree of caution in the current environment especially on the high street. It is expected that Whitbread's ongoing Group-wide efficiency programme can continue to offset a significant proportion of this inflation. The combination of our commitment to the investment programme and the current UK consumer environment naturally means our near-term profit growth may be lower than in previous years.

In FY19 Premier Inn is expected to open 4,000-4,500 rooms in the UK and Germany, including at least three hotels in Germany. Costa plans to deliver 230-250 net new stores globally, including the closure of around 60-80 stores in the UK and China as part of its ongoing network optimisation programme. In addition, overall growth will be supported by over 1,300 new Costa Express machines. In order to achieve Costa's growth ambitions in China and Express, approximately £5 million of incremental operating expense is planned in each business.

Ongoing disciplined allocation of capital and focus on executing Whitbread's plans will deliver sustainable growth in earnings and dividends and a strong return on capital.

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 concluded that the going concern basis remains appropriate.

Risks and uncertainties
The directors have reconsidered the principal risks and uncertainties of the Group and these remain largely unchanged from those reported in the Annual Report and Accounts 2017. 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 existing economic climate risk. The risks relating to change have been updated to reflect the potential impact of the proposed demerger of Costa. Going forward any potential areas of risk will be closely monitored and evaluated.

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

- Premier Inn and Costa hotel and store estate data;
- Premier Inn and Costa sales, profit and return on capital information;
- Comparison of Premier UK sales performance to market trends;
- Group income statement; and
- Lease commitments.

American Depositary Receipts
Whitbread has established a sponsored Level I American Depositary Receipt (ADR) programme for which Deutsche Bank perform the role of depositary bank. The Level I 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).

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 underlying 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, underlying operating profit, underlying profit, underlying basic earnings per share, net debt, return on capital, fixed charge cover, and discretionary free cash flow. 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 Company websites as at 28 February 2018

3 Source: Allegra

4 Source: STR Global

Consolidated income statement
Year ended 1 March 2018

	Notes	52 weeks to 1 March 2018 £m	52 weeks to 2 March 2017 £m
Revenue	4	**3,295.1**	3,106.0
Operating costs		**(2,707.3)**	(2,557.2)
Operating profit before joint ventures and associate		**587.8**	548.8
Share of profit from joint ventures		**2.0**	3.2
Share of profit from associate		**-**	0.7
Operating profit		**589.8**	552.7
Finance costs		**(42.2)**	(37.6)
Finance revenue		**0.8**	0.3
Profit before tax	4	**548.4**	515.4
Analysed as:			
Underlying profit before tax	4	**590.7**	565.2
Non-underlying items	5	**(42.3)**	(49.8)
Profit before tax		**548.4**	515.4
Tax expense		**(112.0)**	(99.5)
Analysed as:			
Underlying tax expense	6	**(116.7)**	(119.1)
Non-underlying tax credit	5	**4.7**	19.6
Tax expense	6	**(112.0)**	(99.5)
Profit for the year		**436.4**	415.9
Attributable to:			
Parent shareholders		**438.0**	421.6
Non-controlling interest		**(1.6)**	(5.7)
		436.4	415.9

Earnings per share (Note 7)	52 weeks to 1 March 2018 pence	52 weeks to 2 March 2017 pence
Earnings per share		
Basic	**239.74**	231.39
Diluted	**239.08**	230.89
Underlying earnings per share		
Basic	**260.16**	246.48
Diluted	**259.44**	245.95

Consolidated statement of comprehensive income
Year ended 1 March 2018

	Notes	52 weeks to 1 March 2018 £m	52 weeks to 2 March 2017 £m
Profit for the year		**436.4**	415.9
Items that will not be reclassified to the income statement:			
Re-measurement gain/(loss) on defined benefit pension scheme		**48.9**	(214.8)
Current tax on pensions	6	**17.2**	15.6
Deferred tax on pensions	6	**(25.8)**	26.7
Deferred tax: change in rate of corporation tax on pensions	6	**-**	(3.1)
		40.3	(175.6)
Items that may be reclassified subsequently to the income statement:			
Net gain/(loss) on cash flow hedges		**2.4**	(0.2)
Current tax on cash flow hedges	6	**0.4**	0.5
Deferred tax on cash flow hedges	6	**(0.8)**	(0.6)
Deferred tax: change in rate of corporation tax on cash flow hedges	6	**-**	(0.1)
		2.0	(0.4)
Exchange differences on translation of foreign operations		**0.6**	22.9
Other comprehensive income/(loss) for the year, net of tax		**42.9**	(153.1)
Total comprehensive income for the year, net of tax		**479.3**	262.8
Attributable to:			
Parent shareholders		**480.9**	268.4
Non-controlling interest		**(1.6)**	(5.6)
		479.3	262.8

Consolidated statement of changes in equity
Year ended 1 March 2018

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Currency translation reserve £m	Other reserves £m	Total £m	Non-controlling interest £m	Total equity £m
At 3 March 2016	150.0	62.6	12.3	4,239.8	5.6	(2,067.7)	**2,402.6**	2.1	**2,404.7**
Profit for the year	-	-	-	**421.6**	-	-	**421.6**	**(5.7)**	**415.9**
Other comprehensive loss	-	-	-	**(175.8)**	**22.8**	**(0.2)**	**(153.2)**	**0.1**	**(153.1)**
Total comprehensive income	-	-	-	**245.8**	**22.8**	**(0.2)**	**268.4**	**(5.6)**	**262.8**
Ordinary shares issued	**0.2**	**5.4**	-	-	-	-	**5.6**	-	**5.6**
Loss on ESOT shares issued	-	-	-	**(6.4)**	-	**6.4**	-	-	-
Accrued share-based payments	-	-	-	**17.7**	-	-	**17.7**	-	**17.7**
Tax on share-based payments	-	-	-	**0.4**	-	-	**0.4**		**0.4**
Tax rate change on historical revaluation	-	-	-	**0.7**	-	-	**0.7**	-	**0.7**
Equity dividends	-	-	-	**(167.1)**	-	-	**(167.1)**	-	**(167.1)**
At 2 March 2017	**150.2**	**68.0**	**12.3**	**4,330.9**	**28.4**	**(2,061.5)**	**2,528.3**	**(3.5)**	**2,524.8**
Profit for the year	-	-	-	**438.0**	-	-	**438.0**	**(1.6)**	**436.4**
Other comprehensive income	-	-	-	**39.9**	**0.6**	**2.4**	**42.9**	-	**42.9**
Total comprehensive income	-	-	-	**477.9**	**0.6**	**2.4**	**480.9**	**(1.6)**	**479.3**
Ordinary shares issued	**0.2**	**5.2**	-	-	-	-	**5.4**	-	**5.4**
Loss on ESOT shares issued	-	-	-	**(2.0)**	-	**2.0**	-	-	-
Accrued share-based payments	-	-	-	**4.3**	-	-	**4.3**	-	**4.3**
Tax on share-based payments	-	-	-	**1.4**	-	-	**1.4**		**1.4**
Tax rate change on historical revaluation	-	-	-	**(0.1)**	-	-	**(0.1)**	-	**(0.1)**
Acquisition of non-controlling interest[1]	-	-	-	**(40.1)**	-	-	**(40.1)**	**5.1**	**(35.0)**
Equity dividends	-	-	-	**(177.6)**	-	-	**(177.6)**	-	**(177.6)**
At 1 March 2018	**150.4**	**73.2**	**12.3**	**4,594.7**	**29.0**	**(2,057.1)**	**2,802.5**	-	**2,802.5**

[1] During the year the Group acquired the 49% non-controlling interest in Yueda Costa (Shanghai) Food & Beverage Management Company Limited for £35.0m.

Consolidated balance sheet
At 1 March 2018

	Notes	**1 March 2018 £m**	2 March 2017 £m
ASSETS			
Non-current assets			
Intangible assets		**300.7**	275.7
Property, plant and equipment		**4,176.0**	3,972.4
Investment in joint ventures		**50.4**	53.0
Derivative financial instruments		**9.2**	43.3
Trade and other receivables		**5.8**	6.8
		4,542.1	4,351.2
Current assets			
Inventories		**48.8**	48.2
Derivative financial instruments		**12.5**	12.3
Trade and other receivables		**191.1**	163.6
Cash and cash equivalents	9	**90.6**	63.0
		343.0	287.1
Assets held for sale		**7.3**	50.5
Total assets		**4,892.4**	4,688.8
LIABILITIES			
Current liabilities			
Borrowings	9	**108.9**	157.4
Provisions		**26.7**	36.3
Derivative financial instruments		**2.6**	2.3
Current tax liabilities	6	**44.8**	45.9
Trade and other payables		**668.2**	596.9
		851.2	838.8
Non-current liabilities			
Borrowings	9	**814.5**	795.6
Provisions		**21.4**	12.3
Derivative financial instruments		**5.3**	8.3
Deferred tax liabilities	6	**82.4**	62.0
Pension liability		**288.6**	425.1
Trade and other payables		**26.5**	21.9
		1,238.7	1,325.2
Total liabilities		**2,089.9**	2,164.0
Net assets		**2,802.5**	2,524.8
EQUITY			
Share capital		**150.4**	150.2
Share premium		**73.2**	68.0
Capital redemption reserve		**12.3**	12.3
Retained earnings		**4,594.7**	4,330.9
Currency translation reserve		**29.0**	28.4
Other reserves		**(2,057.1)**	(2,061.5)
Equity attributable to equity holders of the parent		**2,802.5**	2,528.3
Non-controlling interest		**-**	(3.5)
Total equity		**2,802.5**	2,524.8

Alison Brittain
Chief Executive

Nicholas Cadbury
Finance Director

24 April 2018

Consolidated cash flow statement
Year ended 1 March 2018

	Notes	**52 weeks to 1 March 2018 £m**	52 weeks to 2 March 2017 £m
Profit for the year		**436.4**	415.9
Adjustments for:			
Tax expense	6	**112.0**	99.5
Net finance cost		**41.4**	37.3
Share of profit from joint ventures		**(2.0)**	(3.2)
Share of profit from associate		**-**	(0.7)
Non-underlying operating costs	5	**32.3**	39.7
Net cash outflow from non-underlying operating costs		**(1.7)**	(7.3)
Underlying depreciation and amortisation	4	**229.9**	217.6
Share-based payments		**4.3**	17.7
Other non-cash items		**12.9**	8.6
Cash generated from operations before working capital changes		**865.5**	825.1
Increase in inventories		**(0.6)**	(3.1)
Increase in trade and other receivables		**(50.6)**	(7.1)
Increase in trade and other payables		**62.8**	45.2
Cash generated from operations		**877.1**	860.1
Payments against provisions		**(22.5)**	(22.3)
Pension payments		**(100.8)**	(90.3)
Interest paid		**(34.3)**	(34.9)
Interest received		**0.8**	0.3
Corporation taxes paid		**(99.3)**	(86.8)
Net cash flows from operating activities		**621.0**	626.1
Cash flows from investing activities			
Purchase of property, plant and equipment	4	**(467.0)**	(571.2)
Investment in intangible assets	4	**(52.8)**	(38.6)
Proceeds from disposal of property, plant and equipment		**74.9**	192.9
Proceeds from disposal of investment in associate		**-**	14.1
Proceeds from disposal of business		**56.6**	-
Capital contributions and loans to joint ventures		**(0.3)**	(7.7)
Dividends from associate		**-**	0.4
Net cash flows from investing activities		**(388.6)**	(410.1)
Cash flows from financing activities			
Proceeds from issue of share capital		**5.4**	5.6
(Decrease)/increase in short-term borrowings	9	**(109.6)**	17.6
Proceeds from long-term borrowings	9	**200.0**	-
Repayments of long-term borrowings	9	**(87.0)**	(67.4)
Renegotiation costs of long-term borrowings	9	**(1.3)**	(0.6)
Acquisition of non-controlling interest		**(35.0)**	-
Dividends paid	8	**(177.6)**	(167.1)
Net cash flows from financing activities		**(205.1)**	(211.9)
Net increase in cash and cash equivalents	9	**27.3**	4.1
Opening cash and cash equivalents	9	**63.0**	57.1
Foreign exchange differences	9	**0.3**	1.8
Closing cash and cash equivalents	9	**90.6**	63.0

Notes to the accounts

1. Basis of accounting and preparation

The consolidated financial statements and preliminary announcement of Whitbread PLC for the year ended 1 March 2018 were authorised for issue by the Board of Directors on 24 April 2018.

The financial year represents the 52 weeks to 1 March 2018 (prior financial year: 52 weeks to 2 March 2017).

The financial information included in this preliminary statement of results does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006 (the "Act"). The financial information for the year ended 1 March 2018 has been extracted from the statutory accounts on which an unqualified audit opinion has been issued. Statutory accounts for the year ended 1 March 2018 will be delivered to the Registrar of Companies following the Group's Annual General Meeting.

The statutory accounts for the year ended 2 March 2017, have been delivered to the Registrar of Companies, and the Auditors of the Group made a report thereon under Chapter 3 of part 16 of the Act. That report was unqualified and did not contain a statement under sections 498 (2) or (3) of the Act.

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

2. Basis of consolidation

The consolidated financial statements incorporate the accounts of Whitbread PLC and all its subsidiaries, together with the Group's share of the net assets and results of joint ventures and associate incorporated using the equity method of accounting. These are adjusted, where appropriate, to conform to Group accounting policies. The financial statements of significant trading subsidiaries are prepared for the same reporting year as the parent company except for Costa Coffee (Shanghai) Co. Ltd which has a year-end of 31 December as per Chinese legislation.

A subsidiary is an entity controlled by the Group. Control is the power to direct the relevant activities of the subsidiary which significantly affect the subsidiary's return, so as to have rights to the variable return from its activities.

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

3. Accounting policies

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the consolidated financial statements for the year ended 2 March 2017 except for the adoption of new standards and interpretations that are applicable for the year ended 1 March 2018.

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

- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Loss;
- Amendment to IAS 7 Disclosure Initiative; and
- Amendments to IFRS 12 Disclosure of Interests in Other Entities included in the Annual Improvements to IFRS Standards 2014-2016 Cycle.

Non-underlying items and use of underlying 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.

The term underlying profit is not defined under IFRS and may not be comparable with similarly titled profit measures reported by other companies. It is not intended to be a substitute for, or superior to, statutory measurements of profit. Underlying 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.

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

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

The face of the income statement presents underlying profit before tax and reconciles this to profit before tax. Underlying earnings per share is calculated using underlying profit after tax attributable to the parent shareholders.

The adjustments made to reported profit in the consolidated income statement, in order to derive our underlying results, may include:

- profit or loss on disposal of property, plant and equipment, property provisions and onerous leases. On occasion we may dispose of properties, either as part of a sale and leaseback financing transaction or because the property is no longer required in our ongoing business. In addition, the Group may recognise liabilities in respect of lease obligations on properties which have been previously disposed of but where the lease obligations have reverted to the Group under privity. Profits or losses on these items may be significant and are not reflective of the Group's ongoing trading results;
- profit or loss on the sale of a business or investment. These disposals are not part of the Group's ongoing trading business and are therefore excluded;
- restructuring costs, resulting from a strategic review of the Group's businesses or operations, the inclusion of which would distort the year on year comparability of the Group's trading results;
- impairment of assets as the result of restructuring or closure of a business and impairment of sites which are underperforming or are to be closed, the inclusion of which would distort the year on year comparability of the Group's trading results;
- acquisition costs incurred as part of a business combination or other transaction outside of the ordinary course of business;
- amortisation of intangible assets recognised as part of a business combination or other strategic asset acquisitions;
- finance charge/credit for defined benefit pension scheme. These costs are non-cash and do not relate to the Group's ongoing activities as the scheme is closed to future accrual;
- finance costs resulting from the unwinding of discounts on provisions created in respect of non-underlying items; 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 non-underlying items identified above.

4. Segment information

For management purposes, the Group is organised into two strategic business units; Premier Inn (previously Premier Inn & Restaurants) and Costa, based upon their different products and services:

- Premier Inn provides services in relation to accommodation and food; and
- Costa generates income from the operation of its branded, owned and franchised coffee outlets.

The UK and International Premier Inn segments have been aggregated on the grounds that the International segment is immaterial.

Management monitors the operating results of its strategic business units separately for the purpose of making decisions about allocating resources and assessing performance. Segment performance is measured based on underlying operating profit. Included within the unallocated and elimination columns in the tables below are the costs of running the public company. The unallocated assets and liabilities are cash and debt balances (held and controlled by the central treasury function), taxation, pensions, certain property, plant and equipment, centrally held provisions and central working capital balances.

Inter-segment revenue is from Costa to the Premier Inn segment and is eliminated on consolidation. Transactions were entered into on an arm's length basis in a manner similar to transactions with third parties.

The following tables present revenue and profit information and certain asset and liability information regarding business operating segments for the years ended 1 March 2018 and 2 March 2017.

Year to 1 March 2018	**Premier Inn £m**	**Costa £m**	**Unallocated and elimination £m**	**Total operations £m**
Revenue				
Revenue from external customers	**2,007.4**	**1,287.7**	**-**	**3,295.1**
Inter-segment revenue	**-**	**4.0**	**(4.0)**	**-**
Total revenue	**2,007.4**	**1,291.7**	**(4.0)**	**3,295.1**
Underlying operating profit	**498.4**	**158.8**	**(35.1)**	**622.1**
Underlying net finance cost	**-**	**-**	**(31.4)**	**(31.4)**
Underlying profit before tax	**498.4**	**158.8**	**(66.5)**	**590.7**
Non-underlying items (Note 5):				
Disposal of property, plant and equipment and property provisions	**(5.9)**	**(16.5)**	**6.1**	**(16.3)**
PI International business exit	**6.7**	**-**	**-**	**6.7**
Costa international restructuring	**-**	**(6.1)**	**-**	**(6.1)**
UK restructuring	**(1.7)**	**0.6**	**-**	**(1.1)**
Historic indirect tax disputes	**-**	**(2.8)**	**-**	**(2.8)**
IT asset impairment	**-**	**(9.1)**	**-**	**(9.1)**
Acquisition costs	**-**	**-**	**(1.3)**	**(1.3)**
Amortisation of acquired intangibles	**-**	**(2.3)**	**-**	**(2.3)**
IAS 19 pension finance cost	**-**	**-**	**(10.0)**	**(10.0)**
Total non-underlying items	**(0.9)**	**(36.2)**	**(5.2)**	**(42.3)**
Profit before tax	**497.5**	**122.6**	**(71.7)**	**548.4**
Tax expense (Note 6)				**(112.0)**
Profit for the year				**436.4**
Assets and liabilities				
Segment assets	**4,218.3**	**524.3**	**-**	**4,742.6**
Unallocated assets	**-**	**-**	**149.8**	**149.8**

Total assets	**4,218.3**	**524.3**	**149.8**	**4,892.4**
Segment liabilities	**(489.2)**	**(179.1)**	**-**	**(668.3)**
Unallocated liabilities	**-**	**-**	**(1,421.6)**	**(1,421.6)**
Total liabilities	**(489.2)**	**(179.1)**	**(1,421.6)**	**(2,089.9)**
Net assets	**3,729.1**	**345.2**	**(1,271.8)**	**2,802.5**
Other segment information				
Share of profit from joint ventures	**2.7**	**(0.7)**	**-**	**2.0**
Investment in joint ventures	**39.0**	**11.4**	**-**	**50.4**
Total property rent	**156.4**	**125.7**	**-**	**282.1**
Capital expenditure:				
Property, plant and equipment – cash basis	**370.4**	**96.6**	**-**	**467.0**
Property, plant and equipment – accruals basis	**381.1**	**90.5**	**-**	**471.6**
Intangible assets	**39.9**	**12.9**	**-**	**52.8**
Depreciation – underlying	**(133.2)**	**(75.5)**	**-**	**(208.7)**
Amortisation - underlying	**(17.2)**	**(4.0)**	**-**	**(21.2)**

Year to 2 March 2017	**Premier Inn £m**	**Costa £m**	**Unallocated and elimination £m**	**Total operations £m**
Revenue				
Revenue from external customers	1,907.9	1,198.1	-	3,106.0
Inter-segment revenue	-	3.6	(3.6)	-
Total revenue	1,907.9	1,201.7	(3.6)	3,106.0
Underlying operating profit	468.0	158.0	(33.6)	592.4
Underlying net finance cost	-	-	(27.2)	(27.2)
Underlying profit before tax	468.0	158.0	(60.8)	565.2
Non-underlying items (Note 5):				
Disposal of property, plant and equipment and property provisions	23.1	(10.5)	(0.8)	11.8
PI International business exit	(30.0)	-	-	(30.0)
Costa international restructuring	-	(14.5)	-	(14.5)
UK restructuring	(15.6)	(5.9)	(0.1)	(21.6)
Historic indirect tax disputes	-	5.3	-	5.3
Net gain on disposal of investment in associate	11.8	-	-	11.8
Amortisation of acquired intangibles	-	(2.5)	-	(2.5)
IAS 19 pension finance cost	-	-	(9.4)	(9.4)
Unwinding of discount on provisions	-	(0.2)	(0.5)	(0.7)
Total non-underlying items	(10.7)	(28.3)	(10.8)	(49.8)
Profit before tax	457.3	129.7	(71.6)	515.4
Tax expense (Note 6)				(99.5)
Profit for the year				415.9
Assets and liabilities				
Segment assets	4,020.2	511.4	-	4,531.6
Unallocated assets	-	-	157.2	157.2
Total assets	4,020.2	511.4	157.2	4,688.8
Segment liabilities	(427.8)	(163.3)	-	(591.1)
Unallocated liabilities	-	-	(1,572.9)	(1,572.9)
Total liabilities	(427.8)	(163.3)	(1,572.9)	(2,164.0)
Net assets	3,592.4	348.1	(1,415.7)	2,524.8
Other segment information				
Share of profit from joint ventures	2.5	0.7	-	3.2
Share of profit from associate	0.7	-	-	0.7

Investment in joint ventures	41.0	12.0	-	53.0
Total property rent	139.8	121.4	-	261.2
Capital expenditure:				
Property, plant and equipment – cash basis	459.7	111.5	-	571.2
Property, plant and equipment – accruals basis	455.7	121.5	-	577.2
Intangible assets	25.8	12.8	-	38.6
Depreciation - underlying	(131.0)	(71.5)	-	(202.5)
Amortisation - underlying	(13.3)	(1.8)	-	(15.1)

Revenues from external customers are split geographically as follows:	**2017/18 £m**	2016/17 £m
United Kingdom*	**3,169.6**	2,985.0
Non United Kingdom	**125.5**	121.0
	3,295.1	3,106.0

** United Kingdom (UK) revenue is revenue where the source of the supply is the UK. This includes Costa franchise income invoiced from the UK.*

Non-current assets** are split geographically as follows:	**2018 £m**	2017 £m
United Kingdom	**4,340.6**	4,123.4
Non United Kingdom	**192.3**	184.5
	4,532.9	4,307.9

*** Non-current assets exclude derivative financial instruments.*

5. Non-underlying items

As set out in the policy in Note 3, 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 underlying measures because we believe they provide both management and investors with useful additional information about the financial performance of the Group's businesses. Underlying 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.

	2017/18 £m	2016/17 £m
Non-underlying items were as follows:		
Operating costs:		
Disposal of property, plant and equipment and property provisions (a)	**(16.3)**	11.8
PI International business exit (b)	**6.7**	(30.0)
Costa international restructuring (c)	**(6.1)**	(14.5)
UK restructuring (d)	**(1.1)**	(21.6)
Historic indirect tax disputes (e)	**(2.8)**	5.3
IT asset impairment (f)	**(9.1)**	-
Acquisition costs (g)	**(1.3)**	-
Net gain on disposal of investment in associate (h)	**-**	11.8
Amortisation of acquired intangibles	**(2.3)**	(2.5)
Non-underlying operating costs	**(32.3)**	(39.7)
Net finance costs:		
IAS 19 pension finance cost	**(10.0)**	(9.4)
Unwinding of discount on provisions	**-**	(0.7)
Non-underlying net finance cost	**(10.0)**	(10.1)
Non-underlying items before tax	**(42.3)**	(49.8)
Tax adjustments included in reported profit after tax, but excluded in arriving at underlying profit after tax:		
Tax on non-underlying items	**3.8**	12.3
Non-underlying tax items – tax base cost	**0.9**	2.1
Deferred tax relating to UK tax rate change (i)	**-**	5.2
Non-underlying tax credit	**4.7**	19.6

(a) During the year, the Group made a net gain on asset disposals of £20.3m from disposal and development profit on sale and leaseback transactions, disposal of sites previously held for sale and other minor disposals. This was offset by impairment losses of hotel sites transferred to assets held for sale of £14.1m, impairment losses on trading sites of £7.9m and provision for other property costs of £15.2m. The balance relates to changes in onerous contract provisions in the UK of £3.7m, Poland of £2.7m and release of other provisions of £7.0m.
(b) On 13 July 2016, the Group announced its intention to exit hotel operations in South East Asia. In the prior year the Group recognised impairment losses of £14.9m and a provision of £15.1m for costs of exiting management agreements and closure of regional offices. During the current year the Group disposed of its businesses in Thailand, India and Indonesia, achieving net sales proceeds in excess of those assumed in the initial impairment calculation resulting in a net credit of £6.7m in the year.
(c) During the year Costa has continued the strategic review of its international operations. Further to the decisions taken last year to exit its French equity business and to restructure its Chinese operations, decisions have been made to exit its Singapore equity business and its Express business in Canada. This has resulted in the recognition of store closure and exit costs of £4.4m, offset by a release of onerous lease provisions of £2.2m. In France impairment losses of £1.5m, store closure costs of £0.8m and restructuring costs of £6.8m were recognised in the prior year. With the exit from France nearing completion, the exit costs have been reviewed resulting in a release of £1.5m in the current year. Continuing our reorganisation In China, we have recognised impairment losses of £3.6m (2017: £3.2m), store closure costs of £0.8m (2017: £1.6m) and onerous lease provisions of £1.0m (2017: £0.6m). The share attributable to the parent shareholders is £5.1m (2017: £2.7m).
(d) During the prior year, the Group undertook significant operational reorganisation of support centre operations. This restructuring resulted in costs of £12.4m, including staff redundancy and consultation costs, asset impairments of £2.9m as well as the recognition of a restructuring provision of £6.3m covering staff redundancy and consultation costs. The charge relating to this in the year was £1.1m.
(e) During the year, the Group recognised a provision in respect of additional indirect tax potentially payable outside the UK. In the prior year, the Group received a refund on settlement of a historic VAT claim.
(f) During the year, the Group recognised an impairment charge of £4.4m and provided for costs of £4.7m following a review of IT assets.
(g) As announced on 28 February 2018, the Group has entered into an agreement to acquire the share capital of Foremost Hospitality Group GmbH. To date, the Group has incurred professional fees in relation to the transaction of £1.3m.
(h) During the prior year the Group disposed of its investment in Morrison Street Hotel Limited resulting in a net gain of £11.8m.
(i) Prior year impact of the reduction in the main rate of UK corporation tax to 17% from 1 April 2020.

6. Taxation

Consolidated income statement	**2017/18 £m**	2016/17 £m
Current tax:		
Current tax expense	**116.9**	111.6
Adjustments in respect of previous periods	**(0.2)**	(1.7)
	116.7	109.9
Deferred tax:		
Origination and reversal of temporary differences	**(6.1)**	(6.0)
Adjustments in respect of previous periods	**1.4**	0.8
Change in UK tax rate to 17% (2016/17: 17%)	**-**	(5.2)
	(4.7)	(10.4)
Tax reported in the consolidated income statement	**112.0**	99.5

Consolidated statement of comprehensive income	**2017/18 £m**	2016/17 £m
Current tax:		
Cash flow hedges	**(0.4)**	(0.5)
Pensions	**(17.2)**	(15.6)
Deferred tax:		
Cash flow hedges	**0.8**	0.6
Pensions	**25.8**	(26.7)
Change in UK tax rate to 17% (2016/17: 17%) - pensions	**-**	3.1
Change in UK tax rate to 17% (2016/17: 17%) - cash flow hedges	**-**	0.1
Tax reported in other comprehensive income	**9.0**	(39.0)

A reconciliation of the tax charge applicable to underlying profit before tax and profit before tax at the statutory tax rate, to the actual tax charge at the Group's effective tax rate, for the years ended 1 March 2018 and 2 March 2017 respectively is as follows:

	2017/18 Tax on underlying profit £m	**2017/18** Tax on profit £m	2016/17 Tax on underlying profit £m	2016/17 Tax on profit £m
Profit before tax as reported in the consolidated income statement	**590.7**	**548.4**	565.2	515.4
Tax at current UK tax rate of 19.08% (2016/17: 20%)	**112.7**	**104.6**	113.0	103.1
Effect of different tax rates and unrecognised losses in overseas companies	**3.6**	**12.4**	4.3	8.3
Effect of joint ventures and associate	**(0.4)**	**(0.4)**	(0.5)	(0.5)
Expenditure not allowable	**1.4**	**(5.8)**	3.1	(4.9)
Adjustments to current tax expense in respect of previous years	**(4.1)**	**(0.2)**	(2.1)	(1.6)
Adjustments to deferred tax expense in respect of previous years	**3.5**	**1.4**	1.8	0.8
Impact of deferred tax being at a different rate from current tax rate	**-**	**-**	(0.5)	(0.5)
Impact of change of tax rate on deferred tax balance	**-**	-	-	(5.2)
Tax expense reported in the consolidated income statement	**116.7**	**112.0**	119.1	99.5

Current tax liability
The corporation tax balance is a liability of £44.8m (2017: liability of £45.9m).

Deferred tax
Deferred tax relates to the following:

	Consolidated balance sheet **2018** £m	Consolidated balance sheet 2017 £m	Consolidated income statement **2017/18** £m	Consolidated income statement 2016/17 £m
Deferred tax liabilities				
Accelerated capital allowances	**45.3**	44.0	**1.4**	(4.7)
Rolled over gains and property revaluations	**64.3**	68.1	**(3.8)**	(4.5)
Gross deferred tax liabilities	**109.6**	112.1		
Deferred tax assets				
Pensions	**(28.1)**	(53.1)	**(0.7)**	(0.7)
Other	**0.9**	3.0	**(1.6)**	(0.5)
Gross deferred tax assets	**(27.2)**	(50.1)		
Deferred tax expense			**(4.7)**	(10.4)
Net deferred tax liability	**82.4**	62.0		

Total deferred tax liabilities relating to disposals during the year were £nil (2017: £nil).

The Group has incurred overseas tax losses which, subject to any local restrictions, can be carried forward and offset against future taxable profits in the companies in which they arose. The Group carries out an annual assessment of the recoverability of these losses and does not think it is appropriate at this stage to recognise any deferred tax asset. If the Group were to recognise these deferred tax assets in their entirety, profits would increase by £17.6m (2017: £16.5m), of which, the share attributable to the parent shareholders is £17.6m (2017: £13.9m).

At 1 March 2018, there was no recognised deferred tax liability (2017: £nil) for taxes that would be payable on any unremitted earnings, as all such amounts are permanently reinvested or, where they are not, there are no corporation tax consequences of such companies paying dividends to parent companies.

Tax relief on total interest capitalised amounts to £0.9m (2017: £1.8m).

Factors affecting the tax charge for future years
The Finance Act 2016 reduced the main rate of UK corporation tax to 17% with effect from 1 April 2020. The effect of the new rate was included in the financial statements in 2016/17. The rate change will also impact the amount of the future cash tax payments to be made by the Group.

7. Earnings per share

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

The diluted earnings per share figures allow for the dilutive effect of the conversion into ordinary shares of the weighted average number of options outstanding during the year. Where the average share price for the year is lower than the option price, the options become anti-dilutive and are excluded from the calculation. The number of such options was nil (2017: nil).

The numbers of shares used for the earnings per share calculations are as follows:

	2017/18 million	2016/17 million
Basic weighted average number of ordinary shares	**182.7**	182.2
Effect of dilution – share options	**0.5**	0.4
Diluted weighted average number of ordinary shares	**183.2**	182.6

The total number of shares in issue at the year-end, as used in the calculation of the basic weighted average number of ordinary shares, was 195.6m, less 12.1m treasury shares held by Whitbread PLC and 0.8m held by the ESOT (2017: 195.4m, less 12.1m treasury shares held by Whitbread PLC and 1.0m held by the ESOT).

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

	2017/18 £m	2016/17 £m
Profit for the year attributable to parent shareholders	**438.0**	421.6
Non-underlying items – gross	**42.3**	49.8
Non-underlying items – taxation	**(4.7)**	(19.6)
Non-underlying items – non-controlling interest	**(0.3)**	(2.7)
Underlying profit for the year attributable to parent shareholders	**475.3**	449.1

	2017/18 pence	2016/17 pence
Basic on profit for the year	**239.74**	231.39
Non-underlying items – gross	**23.15**	27.33
Non-underlying items – taxation	**(2.57)**	(10.76)
Non-underlying items – non-controlling interest	**(0.16)**	(1.48)
Basic on underlying profit for the year	**260.16**	246.48
Diluted on profit for the year	**239.08**	230.89
Diluted on underlying profit for the year	**259.44**	245.95

8. Dividends paid and proposed

	2017/18 pence per share	**2017/18 £m**	2016/17 pence per share	2016/17 £m
Final dividend, proposed and paid, relating to the prior year	**65.90**	**120.3**	61.85	112.6
Interim dividend, proposed and paid, for the current year	**31.40**	**57.3**	29.90	54.5
Total equity dividends paid in the year		**177.6**		167.1
Dividends on other shares:				
B share dividend	**0.50**	**-**	0.80	-
C share dividend	**0.60**	**-**	0.80	-
		-		-
Total dividends paid		**177.6**		167.1
Proposed for approval at Annual General Meeting:				
Final equity dividend for the current year	**69.75**	**127.4**	65.90	120.1

A final dividend of 69.75p per share (2017: 65.90p) amounting to a dividend of £127.4m (2017: £120.1m) was recommended by the directors at their meeting on 24 April 2018. A dividend reinvestment plan (DRIP) alternative will be offered. The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these consolidated financial statements.

9. Movements in cash and net debt

Year ended 1 March 2018	**2 March 2017 £m**	**Cost of borrowings £m**	**Cash flow £m**	**Foreign exchange £m**	**Fair value adjustments to loans £m**	**Amortisation of premiums and discounts £m**	**1 March 2018 £m**
Cash at bank and in hand	62.9						**29.2**
Short-term deposits	0.1						**61.4**
Overdrafts	-						**-**
Cash and cash equivalents	63.0	**-**	**27.3**	**0.3**	**-**	**-**	**90.6**
Short-term bank borrowings	(109.6)	**-**	**109.6**	**-**	**-**	**-**	**-**
Loan capital under one year	(47.8)						**(108.9)**
Loan capital over one year	(795.6)						**(814.5)**
Total loan capital	(843.4)	**1.3**	**(113.0)**	**25.0**	**8.3**	**(1.6)**	**(923.4)**
Net debt	(890.0)	**1.3**	**23.9**	**25.3**	**8.3**	**(1.6)**	**(832.8)**

Year ended 2 March 2017	3 March 2016 £m	Cost of borrowings £m	Cash flow £m	Foreign exchange £m	Fair value adjustments to loans £m	Amortisation of premiums and discounts £m	2 March 2017 £m
Cash at bank and in hand	57.0						62.9
Short-term deposits	0.1						0.1
Overdrafts	-						-
Cash and cash equivalents	57.1	-	4.1	1.8	-	-	63.0
Short-term bank borrowings	(92.0)	-	(17.6)	-	-	-	(109.6)
Loan capital under one year	(2.0)						(47.8)
Loan capital over one year	(872.9)						(795.6)
Total loan capital	(874.9)	0.6	67.4	(28.1)	(6.5)	(1.9)	(843.4)
Net debt	(909.8)	0.6	53.9	(26.3)	(6.5)	(1.9)	(890.0)

Net debt includes US$ denominated loan notes of US$285.0m (2017: US$325.0m) retranslated to £208.2m (2017: £267.8m). These notes have been hedged using cross-currency swaps. At maturity, £181.6m (2017: £208.3m) 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 £806.0m (2017: £830.5m).

Glossary

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

Average room rate (ARR)†
Hotel revenue divided by the number of rooms occupied by guests.
Closest IFRS measure: No direct equivalent
Reconciliation: N/A

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
Bookings made direct to the Premier Inn website, Premier Inn app, Premier Inn customer contact centre or hotel front desks.

Direct digital
Bookings made direct to the Premier Inn website and Premier Inn app based on stayed bookings in the financial year, based on stayed bookings in the financial year.

Discretionary free cash flow†
Cash generated from operations after payments for interest, tax and maintenance capital. New measure used to demonstrate the conversion of underlying operating profit into cash before considering discretionary cash flows.
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†
Underlying earnings before interest, tax, depreciation and amortisation, excluding income from Joint Ventures and Associates.
Closest IFRS measure: No direct equivalent
Reconciliation: Refer below

EBITDAR†
Underlying earnings before interest, tax, depreciation, amortisation and rent, excluding income from Joint Ventures and Associates.
Closest IFRS measure: No direct equivalent
Reconciliation: Refer below

Equity stores
Costa stores leased or owned by Whitbread, as opposed to those leased or operated under franchise agreements.

Fixed charge cover†
Ratio of underlying operating profit before total property rent compared to interest plus total property rent. New measure used to demonstrate the Group's ability to meet its fixed operating costs.
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.

IFRS
International Financial Reporting Standards.

Joint sites
A site which has both a Premier Inn and Whitbread-owned pub restaurant in one location.

Like-for-like sales†
Period over period change in revenue for outlets open for at least one year. Redefined to reflect wider industry practice. Comparatives have been presented using the revised definition.
Closest IFRS measure: No direct equivalent
Reconciliation: N/A

Net 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 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: N/A

Return on Capital†
Underlying operating profit for the year divided by net assets at the balance sheet date, adding back debt, taxation liabilities, the pension deficit and derivative financial assets and liabilities.
Closest IFRS measure: No direct equivalent
Reconciliation: Refer below

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

Underlying net finance cost†
Finance costs net of finance revenue excluding non-underlying finance costs or revenue.
Closest IFRS measure: Net finance costs
Reconciliation: Note 4

Underlying operating profit†
Operating profit before non-underlying operating costs.
Closest IFRS measure: Operating profit
Reconciliation: Refer below

Underlying profit before tax†
Profit before tax before non-underlying items.
Closest IFRS measure: Profit before tax
Reconciliation: Note 4

Underlying tax†
Tax expense excluding non-underlying tax items.
Closest IFRS measure: Tax Expense
Reconciliation: Note 6

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

Reconciliations of APMs

EBITDA and EBITDAR		**2017/18**	**2016/17**
Underlying operating profit	Note 4	622.1	592.4
Depreciation	Note 4	208.7	202.5
Amortisation	Note 4	21.2	15.1
EBITDA		**852.0**	**810.0**
Total property rent	Note 4	282.1	261.2
EBITDAR		**1,134.1**	**1,071.2**

Return on Capital		**2017/18**	**2016/17**
Net assets	Balance sheet	2,802.5	2,524.8
Net debt	Note 9	832.8	890.0
Current tax liabilities	Note 6	44.8	45.9
Deferred tax liabilities	Note 6	82.4	62.0
Pension deficit	Balance sheet	288.6	425.1
Derivative financial assets	Balance sheet	(21.7)	(55.6)
Derivative financial liabilities	Balance sheet	7.9	10.6
Net assets for return on capital		**4,037.3**	**3,902.8**
Underlying operating profit	Note 4	**622.1**	**592.4**
Return on capital		**15.4%**	**15.2%**

Fixed charge cover		**2017/18**	**2016/17**
Underlying operating profit	Note 4	622.1	592.4
Total property rent	Note 4	282.1	261.2
Underlying operating profit before rent		**904.2**	**853.6**
Underlying interest	Note 4	31.4	27.2
Total property rent	Note 4	282.1	261.2
Underlying interest plus rent		**313.5**	**288.4**
Fixed charge cover		**2.9**	**3.0**

Underlying operating profit		**2017/18**	**2016/17**
Operating profit	Income statement	589.8	552.7
Non-underlying operating costs	Note 5	32.3	39.7
Underlying operating profit		**622.1**	**592.4**