

ANNUAL REPORT

OUR BUSINESSES ARE POSITIONED IN MARKETS WHERE GROWTH IS DRIVEN BY WELL-ESTABLISHED CONSUMER TRENDS. IN ADDITION, MANAGEMENT HAS TAKEN FURTHER ACTION TO STRENGTHEN THE CONSUMER APPEAL OF OUR BRANDS, PARTICULARLY THROUGH ENHANCED CUSTOMER SERVICE, AND REMAINS FOCUSED ON IMPROVING RETURNS THROUGH INCREASED EFFICIENCY.

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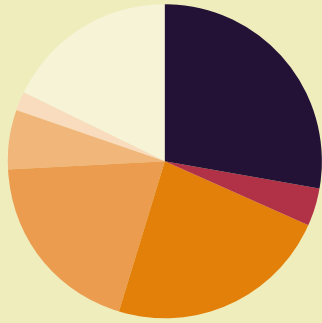
This document contains detailed financial and statutory information and constitutes Whitbread PLC's annual report and accounts for 1998/9.

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

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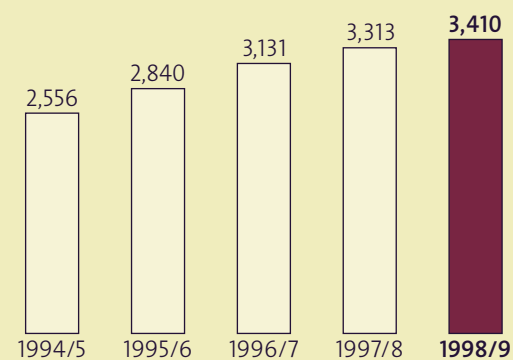
2 FINANCIAL HIGHLIGHTS

SEGMENTAL TURNOVER ANALYSIS 1998/9

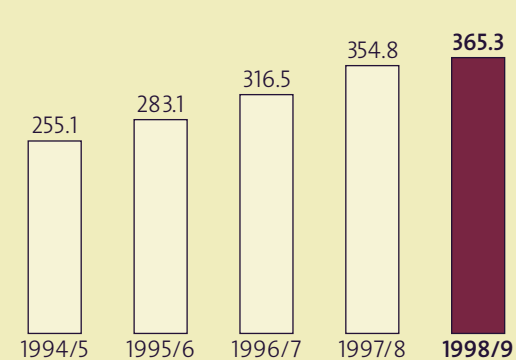


- Beer
- Pub Partnerships
- Inns
- Restaurants
- Hotels
- Sports, health and fitness
- Other drinks

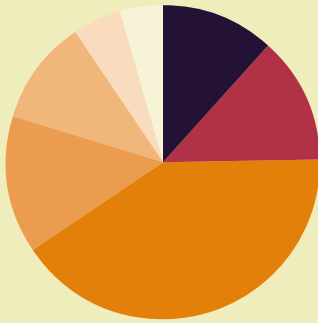
TURNOVER INCLUDING JOINT VENTURES (£m)



PROFIT BEFORE EXCEPTIONAL ITEMS AND TAX (£m)



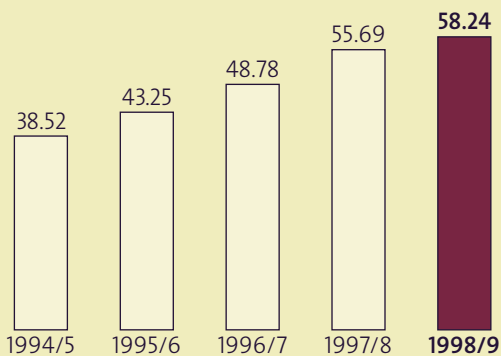
SEGMENTAL PROFIT ANALYSIS 1998/9



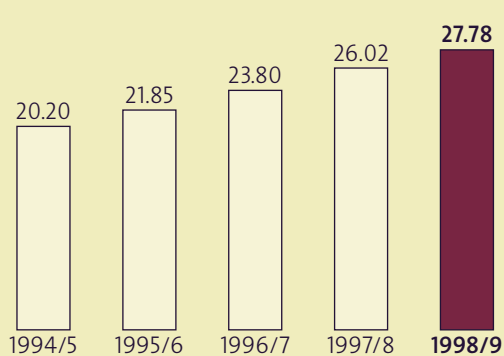
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TO HAVE ACHIEVED A 4.6% INCREASE IN ADJUSTED EARNINGS PER SHARE IN DIFFICULT MARKET CONDITIONS WAS A CREDITABLE PERFORMANCE. THE SLOWDOWN IN CONSUMER SPENDING COUPLED WITH THE EFFECT OF DISPOSALS MEANT COMPARABLE TURNOVER WAS FLAT BUT PROFIT BEFORE EXCEPTIONAL ITEMS AND TAX GREW 3%.

ADJUSTED EARNINGS PER SHARE (p)



ORDINARY DIVIDENDS PER SHARE (p)



4 CHAIRMAN'S STATEMENT

To have achieved a 4.6% increase in adjusted earnings per share in difficult market conditions was a creditable performance. The slowdown in consumer spending coupled with the effect of disposals meant comparable turnover was flat but profit before exceptional items and tax grew 3%.

These results benefited from management action to protect margins by controlling costs and from the stability provided by our exposure to a wide section of the leisure market. While sales in the eating out businesses felt the effects of lower consumer confidence and spending, other parts of the portfolio recorded continuing growth.

Capital expenditure has been increasingly focused on areas where market growth is well ahead of supply and 89 new sites were opened in Marriott, Travel Inn, David Lloyd Leisure and Costa. A total of £443 million was invested to secure future growth. Our capital expenditure programme continues to enhance the group's overall return on capital.

During the year we disposed of over 400 trading units which had an immediate dilutive effect but will improve future returns and growth. The disposals realised a total of £117 million which helped to reduce cash outflow to £78 million.

Our businesses are positioned in markets where growth is driven by well-established consumer trends. In addition, management has taken further action to strengthen the consumer appeal of our brands, particularly through enhanced customer service, and remains focused on improving returns through increased efficiency.

Outlook

There is evidence that the recent high level of supply growth in new food pubs and restaurants is beginning to abate and that the prospects in these sectors are improving. There are indications that consumers are becoming more confident, although this will take some time to be reflected in consumer expenditure. Trading since the year end has been ahead of the same period last year.

A final dividend of 20.50 pence per share is proposed which will make the total dividend for the year 27.78 pence. This will be paid on 16 July 1999 to shareholders on the register at close of business on 21 May 1999.

Post balance sheet event

On 3 May 1999 Whitbread and Allied Domecq issued the following joint statement:

"Whitbread and Allied Domecq confirm that they are in preliminary discussions which may or may not lead to Whitbread acquiring Allied Domecq's UK retail business.

"If the transaction proceeds, the consideration for the acquisition would be satisfied by Whitbread issuing equity to Allied Domecq shareholders and by the assumption of some debt in the acquired business."

Corporate governance

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

AGM

The Annual General Meeting will take place on Tuesday, 29 June 1999 at Chiswell Street in London and I hope to see many of you there.

Community Investment Programme

Whitbread was one of the first companies to recognise the value of corporate community involvement. We were also amongst the first to acknowledge the direct benefits to our business which resulted from this involvement – hence the name 'Community Investment Programme'.

Whitbread has a truly nation-wide programme providing support to communities on a local basis where our businesses are located. We try to involve all the resources of our business. Increasingly, it is Whitbread people helping in schools, charities and other community organisations – either by volunteering or as part of their training and development – who enable us to deliver our community objectives.

We identify all those items we no longer need to see whether they can be of use to local community organisations. Last year when Pizza Hut introduced a new range of crockery, half of the old stock went to the Macmillan Cancer Fund and the remainder to 43 charities dealing with the homeless. Similarly the refurbishment of our Marriott Hollins Hall hotel near Leeds enabled us to furnish 20 bedrooms for the Burnley Women's Refuge.

All of these activities are designed to help us to increase the health and prosperity of the communities in which we trade. The reputation that we have gained through our local community involvement is helping us to recruit and retain the people that we need to operate our business.

I was delighted that this approach was recognised in the inaugural Awards for Excellence in Corporate Community Investment, organised by Business in the Community and judged by the British Quality Foundation, when we were named Company of the Year.

People

On your behalf I should like to thank all Whitbread people for their achievements in what has undoubtedly been a difficult trading year. I have no doubt that the skill and enthusiasm our people bring to looking after our customers helps set us apart in crowded markets.

Board

As noted in my statement last year, David Williamson joined the board in May 1998. I am delighted to report that his distinguished civil service career in London and Brussels was recognised by his ennoblement in the New Year's Honours.

On 17 March 1999 it was announced that Lord MacLaurin had agreed to become deputy chairman of Whitbread. He brings a wealth of experience to his new role, having previously been Chairman of Tesco and currently being the Chairman of Vodafone.

Michael Angus

4 May 1999

OUR BRANDS ARE OPERATED THROUGH SEVEN BUSINESS UNITS

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

Sports, health and fitness	Outlets
David Lloyd Leisure clubs	28
Curzon The Gym	8

Inns operates around 1,600 managed pubs and pub restaurants, including Brewers Fayre and Hogshead. Around 700 of Whitbread Inns' pubs are non-branded community pubs – the local firmly focused on the needs of the surrounding community.

Inns	Outlets
Brewers Fayre	381
Hogshead	144
Wayside Inn	64
Family Inn	43

Pub Partnerships manages the company's leased pub operation.

Pub Partnerships	Outlets
Pubs	1,730

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

Restaurants	Outlets
Beefeater	256
Bella Pasta	71
Costa	134
Café Rouge	108
Dôme	18
Mamma Amalfi	11
T.G.I. Friday's	29
Pizza Hut (50/50 joint venture with Tricon):	
Full service restaurants	280
Delivery units	113
Churrasco	24
Tascaria Maredo	37
Müller Franzen	4

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

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

Hotel Company	Outlets
Marriott Hotels	26
Courtyard by Marriott	10
Travel Inn*	207

*Includes hotels operated by other Whitbread businesses

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

First Quench	Outlets
Victoria Wine Cellars	126
Haddows	183
Destination Wine Stores	654
Neighbourhood Drinks Stores	347
Firkin Off-Licence	12
Precinct Stores	42
Wine Rack	114
Thresher Wine Shops	772
Bottoms Up	90
Drinks Cabin	318
Hutton's	100

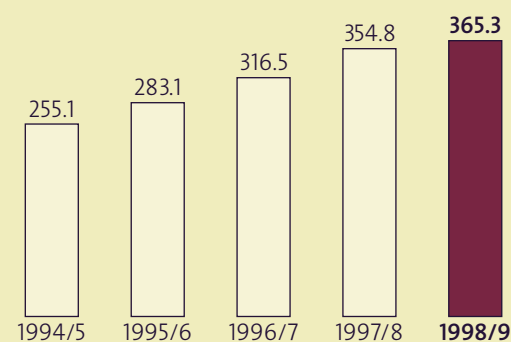
SUMMARY

At the end of August 1998, our Thresher off-licence business was merged with the off-licence business of Allied Domecq PLC to form First Quench Retailing Limited. Allied Domecq and ourselves each hold 50% of First Quench, which has been accounted for as a joint venture. The First Quench transaction and the implementation of a new financial reporting standard (FRS 9 – Associates and joint ventures) have distorted the year over year comparison of our headline turnover figures.

Turnover, including joint ventures, increased by 2.9% to £3,410 million. Under the terms of FRS 9, however, there is some double-counting of sales within this figure. It includes sales of the group and our share of the sales of our joint ventures, without the elimination of sales from Whitbread to the joint ventures and vice versa. If these double-counted sales are eliminated, turnover declined by 0.1%.

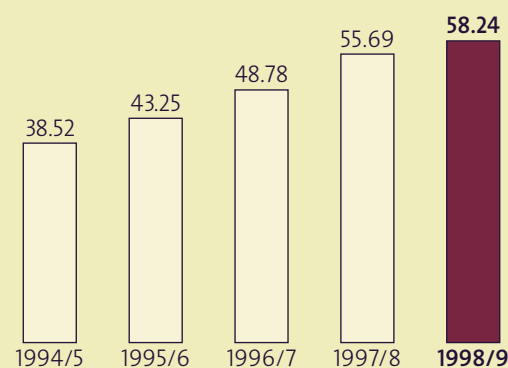
Group turnover, i.e. excluding sales by joint ventures, declined by 7.2%. The 1998/9 turnover includes the sales of Thresher until its transfer into First Quench. The comparative figure for 1997/8 included the sales of Thresher for the full year. If all sales relating to Thresher and First Quench are excluded from both years, turnover growth is 0.4%.

PROFIT BEFORE EXCEPTIONAL ITEMS AND TAX (£m)



Profit before exceptional items and tax grew by 3.0%. The profit contribution from each division is described in the operating review which follows. All our businesses had to contend with an economic environment in which consumers were cautious. In response to this, all our businesses placed an even greater focus on the control of costs and margins.

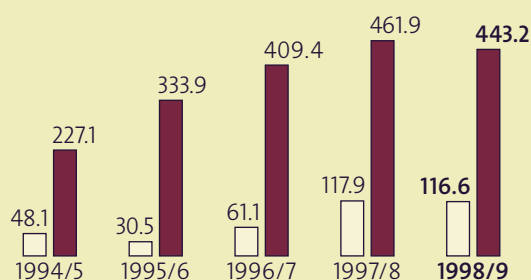
ADJUSTED BASIC EARNINGS PER SHARE (p)



Earnings per share, adjusted for exceptional items, increased by 4.6% to 58.24 pence. The proposed final dividend is 20.50 pence. The full year's dividend per share, interim plus final, is 6.8% above that of last year.

CAPITAL EXPENDITURE (£m)

- Capital receipts
- Capital expenditure



Capital invested in existing businesses amounted to £443 million for the year. This was slightly down on the previous year and incorporated a redirection of investment towards market segments where the growth in demand continues to be strong. This capital expenditure programme was, in part, funded by further sales of 400 pubs which no longer met our criteria for retention. Proceeds from these and other disposals amounted to £117 million.

Cash outflow before financing was £78 million. The underlying cash flow (after adjusting for businesses acquired and sold and investment in new retail outlets) was an inflow of £179 million.

OPERATING REVIEW

Beer

Operating profit before exceptional items increased 16% on sales which were 1.2% ahead. This was a good performance in a beer market which declined 3.2% by volume and which was characterised by strong competition and pricing pressure from major buying groups.

Most of the profit improvement came from the Beer Company's continuing drive to become a more efficient business. During the year the Cheltenham brewery was closed and the Castle Eden brewery was sold to a local business consortium. A bottling plant and a major distribution depot also were closed. Manufacturing productivity increased by 8% with further gains from procurement. These efficiency measures led to exceptional costs of £16.6 million which are provided for in this year's accounts.

Brand performance was once again led by Stella Artois which grew 32% by volume to take a 25% share of the premium lager market. Stella is now the eighth largest selling grocery brand, of any kind, in supermarkets and shops. Boddingtons increased its share of the ale market from 4.5% to 4.9%.

Overall the Beer Company's core brands accounted for 70% of total sales and while there were minor losses in market share for Heineken and Murphy's Irish Stout, share of the total beer market rose from 15.4% to 15.7%.

The Beer Company's monitoring of customer satisfaction showed further improvement during the year and contributed to further growth in take-home market share. On-trade sales were maintained in a market down 3.8%.

Pub Partnerships

Operating profit and sales both fell 6.5% but this was because Pub Partnerships completed the disposal of its poorer performing pubs. There was an average of 347 fewer pubs trading which represented 16% of the total. Profit per retained pub grew 8% and like-for-like profit by 5.2% which was a healthy performance in a market where on-trade beer sales fell by 3.8%.

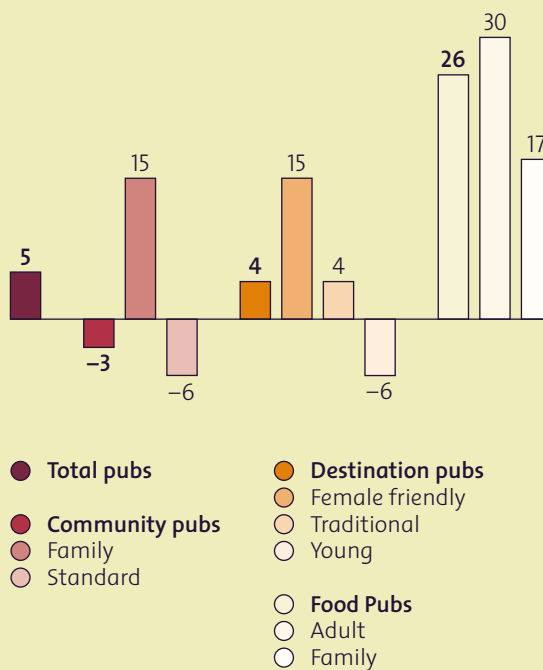
Pub Partnerships demonstrated its strength as a business which performs consistently throughout the economic cycle. A total of £89 million of positive cash flow was generated before financing costs and tax.

The business now consists of 1,730 pubs, 90% of which are on 20 year leases. This long-term commitment provides the opportunity to develop strong relationships between Pub Partnerships and their lessees leading to a co-operative effort to develop each pub's commercial success. A total of £11 million was invested in 141 capital developments to help achieve this objective.

A further measure of the value created by Pub Partnerships' approach to leased pubs was that 169 lessees were able to assign their leases at an average premium of £58,000. This opportunity to realise a significant capital gain provides a major incentive for entrepreneurial people to enter the pub industry.

Pub Partnerships was the first British leased pub business to have its standard lease terms approved by the European Commission. This was external recognition of the fair terms and genuine partnership with lessees to which the business is fully committed.

PUB MARKET GROWTH – THE NEXT FIVE YEARS (%)



Source: Whitbread research

Divisional performance – Beer Company £m

Turnover	
1997/8	996
1998/9	1,008

Operating profit*	
1997/8	44.6
1998/9	51.6

Net assets	
1997/8	350
1998/9	308

Capital expenditure	
1997/8	45.5
1998/9	47.2

*Before exceptional items

Divisional performance – Pub Partnerships £m

Turnover	
1997/8	155
1998/9	145

Operating profit	
1997/8	61.3
1998/9	57.3

Net assets	
1997/8	412
1998/9	401

Capital expenditure	
1997/8	15.5
1998/9	13.8

Capital receipts	
1997/8	33.0
1998/9	45.0

Inns

Operating profit growth was 4.2%, ahead of the 2.7% increase in sales. There was a 1% improvement in both food and drink margins achieved by a combination of rigorous control of costs and selective price increases.

Further action was taken to improve the overall quality of the business with the disposal of 110 smaller, less profitable, pubs and the addition of 56 larger branded ones with higher average sales and a better conversion of sales to profit. This contributed to the improvement in turnover with sales per pub growing 4.1%.

Like-for-like sales, however, declined by 3.4%, in line with the market, as people cut back on their spending at the same time as the supply of pubs was increasing.

Competitive activity was particularly strong in the food market where the conversion of existing pubs to food brands and the development of new sites led to a 4% increase in supply. Our 381 Brewers Fayre pubs lead this market and action was taken to reinforce their position with major new menu developments, improvements in service and increased emphasis on attracting families with children.

Hogshead continued to perform well and 30 new pubs were opened to bring the total for this high street brand to 144. Whitbread Inns is focused on growth sectors of the market with some 70% of its pubs in the expanding 'destination' and food sectors against a market average of 50%.

Restaurants

Operating profit before exceptional items fell 10% with sales down 3.9% as the eating out market felt the effect of consumers cutting back. In the UK restaurant market as a whole, the number of meals served fell by 5%.

Beefeater sales were down 9% due primarily to the disposal of 40 pub restaurants – 14% of the total. Like-for-like sales were down 3.3%. Beefeater set out to attract new customers by more effective marketing and by meeting a growing demand for Sunday lunch and midweek special meals. The early results are encouraging.

Pelican, which includes the Café Rouge, Dôme and Mamma Amalfi brands, recorded sales growth of 5.8% created mainly by the opening of new restaurants. Like-for-like sales in Café Rouge fell 3% in a market down 5% which illustrated the customer appeal of the brand even in a difficult economic climate.

Costa grew sales by 52% and like-for-like sales by 16% and confirmed its position as the leader in the fast growing coffee market. 51 new units were opened in the year bringing the total to 134 with a further 12 in the pipeline.

Pizza Hut also maintained its market leadership growing sales by 5.1%. Like-for-like sales were slightly down as a result of lower consumer activity on the high street particularly during the important Christmas and New Year trading period.

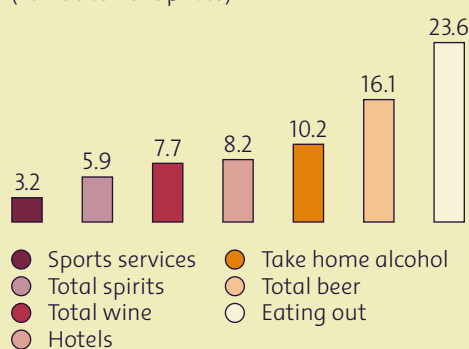
T.G.I. Friday's grew sales by 10% and achieved a small like-for-like sales improvement despite adverse market conditions. A new 'Authentic American' menu introduced in July proved extremely popular. Five new stores were opened bringing the total to 29 with three more under development.

BrightReasons sales fell 20% as a result of the transfer and disposal of over 100 restaurants in the last two years but like-for-like sales for Bella Pasta grew 0.6% as the brand was relaunched with a new, more attractive menu.

Restaurants in Germany

Sales of the German restaurant brands were flat in line with a market affected by general economic conditions and a fall-off in consumer confidence.

UK EATING OUT MARKET (in context)
(£bn at current prices)



Source: ONS data adjusted by Whitbread to include business and foreign tourist expenditure

Divisional performance – Inns £m

Turnover	
1997/8	807
1998/9	829

Operating profit	
1997/8	171.9
1998/9	179.1

Net assets	
1997/8	1,221
1998/9	1,291

Capital expenditure	
1997/8	171.5
1998/9	120.4

Capital receipts	
1997/8	35.8
1998/9	9.6

Divisional performance – Restaurants £m

Turnover	
1997/8	731
1998/9	703

Operating profit*	
1997/8	69.8
1998/9	62.7

Net assets	
1997/8	669
1998/9	680

Capital expenditure	
1997/8	82.4
1998/9	76.0

Capital receipts	
1997/8	5.7
1998/9	32.8

*Before exceptional items

Leading UK hotel groups

	Hotels	Rooms
1 Granada	327	29,816
2 Whitbread	243	16,727
3 Thistle	95	13,197
4 Stakis/Hilton	94	16,916
5 Holiday Inn	41	8,030

Source: Whitbread Estimates

Hotels

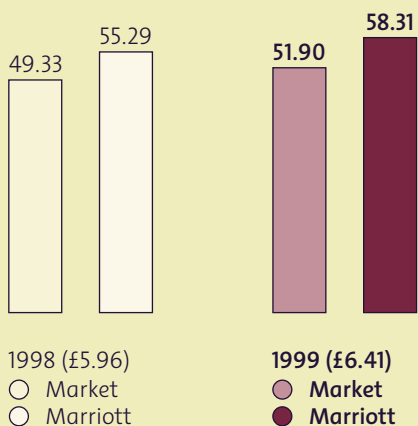
Operating profit grew 31% on sales which were 14% ahead. Like-for-like sales were up 4.9% after a very strong year for the Whitbread Hotel Company.

Total hotel profit, including the contribution of Travel Inn which is largely reported through other businesses, is now £87 million. With 243 hotels, Whitbread is the UK's second largest hotel operator.

Marriott occupancy was 76%, slightly down on the previous year, but achieved room rates were 9% ahead and the Marriott brand achieved an 11% yield premium to the market. Three new hotels were opened – Heathrow, Manchester and County Hall in London – bringing the portfolio to a total of 36. Guest satisfaction measures continued to improve as did the Marriott brand's popularity amongst business users measured by the Annual Hotel Guest Survey.

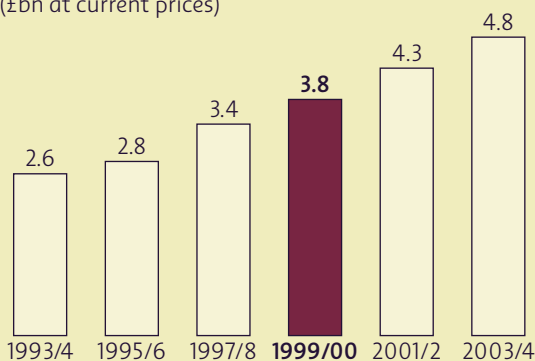
Travel Inn achieved occupancy of 87% for the year – the highest ever recorded by a UK hotel network. There are now 207 hotels with 10,474 rooms and a further 29 under development. Capital Travel Inn's three sites in London reached occupancy levels of 94% helping to confirm the strategy of building large, city centre hotels in major tourist and business centres. 27 Travel Inns were opened during the year.

HOTELS: MARRIOTT VS UK MARKET ROOM YIELD (£)



Source: PKF/Arthur Andersen

UK SPORTS SERVICES MARKET* 1993/4 – 2003/4
(£bn at current prices)



Source: ONS data adjusted by Whitbread estimates
*Including goods, services and clothing

Sports, health and fitness

Operating profit growth, at 12%, was held back by a combination of the costs associated with the rapid opening programme and investment in the management structure needed for the next phase of development. Sales were up 25%.

The key measures for the future success of this business – mature club sales and membership renewal rates – remained highly positive. Mature clubs – defined as those trading for more than three years – increased sales by 7%. Renewal rates continued to exceed the industry average at almost 80%.

During the year eight new clubs were opened bringing the total to 28 which means that David Lloyd Leisure has more than doubled in size since Whitbread acquired the business. With 118,000 members it is by far the industry leader. Eight further sites are currently under construction for the David Lloyd Leisure brand, while six new Curzon gyms are in the pipeline, bringing this brand up to a total of 14.

In January we announced our intention to sell the Gatehouse Nursery business, which was acquired as part of the original purchase of David Lloyd Leisure. This followed a strategic review which concluded that this was a business which would have better prospects with a specialist operator.

Other drinks

This reporting segment includes the sales and profit of Thresher for the period until 29 August 1998 and a 50% share of First Quench's figures for the remainder of the year. The balance of the segment comprises the profit contribution from Britannia Soft Drinks. Thresher and First Quench sales grew marginally but profit declined in a very competitive market place. Whitbread's minority share of Britannia's profit fell 32%.

Divisional performance – Hotels £m

Turnover	
1997/8	195
1998/9	223
Operating profit	
1997/8	36.7
1998/9	48.0
Net assets	
1997/8	470
1998/9	559
Capital expenditure	
1997/8	90.7
1998/9	78.5
Capital receipts	
1997/8	63.0
1998/9	0.8

Divisional performance – Sports, health and fitness £m

Turnover	
1997/8	63
1998/9	78
Operating profit	
1997/8	19.0
1998/9	21.3
Net assets	
1997/8	184
1998/9	274
Capital expenditure	
1997/8	43.4
1998/9	96.2

Divisional performance – Other drinks £m

Turnover	
1997/8	632
1998/9	634
Operating profit	
1997/8	25.2
1998/9	19.0
Net assets	
1997/8	164
1998/9	177
Capital expenditure	
1997/8	6.8
1998/9	4.8

FINANCE REVIEW

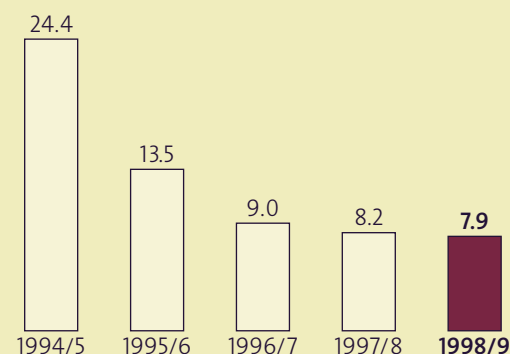
Operating profit

Operating profit grew by 3.5% to £418.5 million. The make-up of this figure is analysed in detail in the segmental analysis set out in note 2 to the accounts. The contribution of each business is described in the preceding operating review.

Interest

The net interest charge increased by £3.6 million to £53.2 million. This increase reflects a modest increase in the level of net debt resulting from the level of investment described earlier. Net interest was covered 7.9 times by operating profit.

INTEREST COVER (times covered)



Exceptional items

Exceptional costs were charged against operating profit in respect of rationalisation costs incurred by The Whitbread Beer Company and write-downs in respect of asset impairment. The Beer Company costs arose in connection with the sale of a brewery at Castle Eden and the closures of a brewery at Cheltenham, a bottling plant at Tiverton and a regional distribution depot and customer service centre. These actions, which followed a strategic review of facilities, will increase Beer Company's ability to compete effectively. The charge for impairment, which follows the implementation of FRS 11 ('Impairment of fixed assets and goodwill'), represents a reduction in the value of some leasehold properties.

Non-operating exceptional items comprised: a net profit of £14.0 million on the disposal of fixed assets; a loss on the disposal of businesses of £17.9 million; and our share of fundamental restructuring costs in First Quench of £6.9 million. The net profit on the disposal of fixed assets provides reassurance as to the balance sheet values of our fixed assets. The loss on disposal of businesses, which reflects the disposal of Thresher into First Quench and the proposed sale of Gatehouse Nurseries, is arrived at after taking account of goodwill previously written off. The First Quench restructuring costs are in line with the plans formulated prior to the merger of Thresher and Victoria Wine. There will be further restructuring costs in 1999/00.

Taxation

The tax charge for the year was £75.5 million. The effective rate of tax on profit before exceptional items was 21.4%. The effective rate of tax continues to be lower than the standard UK corporate tax rate of 31%, principally because of the recent levels of capital expenditure. The resulting tax relief has exceeded the charge for depreciation.

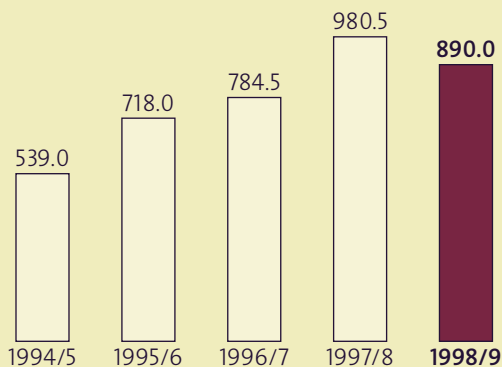
Second half year as a discrete period

Trends in the second half of the year were broadly similar to those reported in the interim statement. Second half turnover including joint ventures, adjusted to eliminate the double-counted sales described earlier, fell by 0.2% compared with the second half of the previous year. Group turnover for the same period, excluding the sales of Thresher and First Quench, increased by 0.6%. Profit before exceptional items and tax rose by 0.8%.

It should be noted that, as usual, The Whitbread Beer Company made the bulk of its operating profit in the first half. The comparable first half versus second half sales split was 52%: 48% (1997/8 – 53%: 47%). The first half versus second half profit split was 63%: 37% (1997/8 – 65%: 35%). The much lower profit margin in the second half reflects the fact that a significant proportion of the Beer Company's costs are fixed rather than variable with sales, whereas sales are first half biased. It also reflects the fact that activities, such as training and planned maintenance, are heavily biased towards the months of January and February, when trading activity is less intense.

The rate of capital expenditure slowed in the second half (£206 million compared with £237 million in the first half). This trend reflects our unwillingness to invest in sites at prices which are outside our tight investment criteria.

SHARE PRICE AT YEAR END (p)

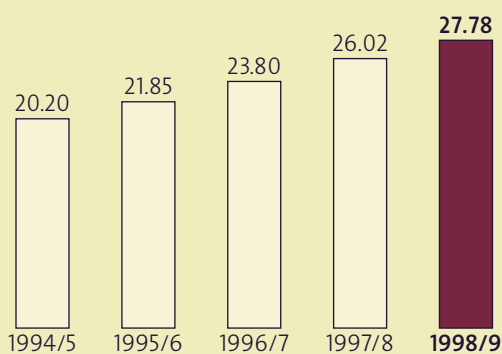


Shareholder return

Earnings per share, adjusted for exceptional items, grew by 4.6% to 58.24 pence. This increase reflects the growth in profit and the reduction in the effective tax rate.

The proposed final dividend is 20.50 pence per share. The total dividend for the year, interim plus final, of 27.78 pence per share results in growth of 6.8%. The total dividend is covered 2.1 times by adjusted earnings per share.

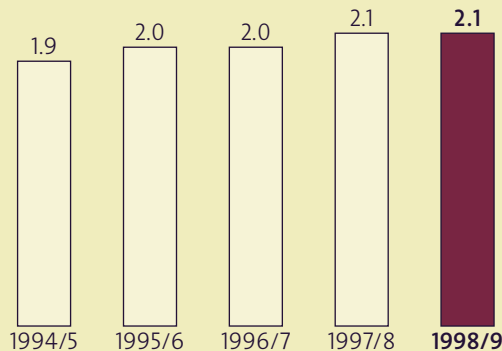
ORDINARY DIVIDENDS PER SHARE (p)



The ordinary share price started the financial year at 980.5 pence and closed at 890.0 pence. The highest and lowest prices recorded during the year were 1121 pence and 695 pence respectively. The index for the breweries, pubs and restaurants sector fell by 4% over the same period. The company's market capitalisation at 27 February 1999 was £4.4 billion.

Net asset value per share at the balance sheet date was 531.0 pence, compared with 501.5 pence at the previous balance sheet date. This increase was generated largely by the retained profit for the year.

DIVIDEND COVER (times covered)



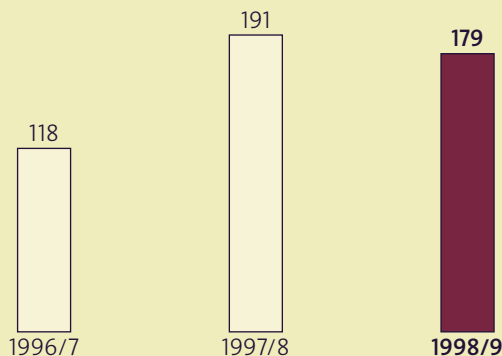
Cash flow

Cash inflow from operating activities fell by £10 million to £519 million. Working capital this year was reduced by £12 million compared with a £24 million reduction in 1997/8.

Net cash outflow from 'capital expenditure and financial investment', at £322 million, was slightly below that of the previous year. As described earlier in this review, the level of capital expenditure, at £443 million, was lower than last year. Disposals, which realised proceeds of £117 million, remained at a similar level.

The cash outflow before financing was £78 million. In order to assess the underlying cash flow performance, it is necessary to eliminate the cash flows relating to the acquisition and disposal of businesses (net outflow of £10 million) and the investment in new retail outlets (outflow of £247 million included within 'property and plant purchased'). Underlying cash inflow, after making these adjustments, was £179 million. The equivalent figure for 1997/8 was £191 million.

UNDERLYING CASHFLOW (£m)

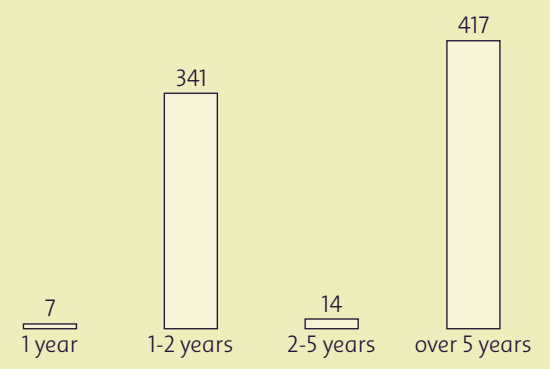


Financial Reporting Standards

Six new FRS's were adopted for the first time in 1998/9. Reference to the impact of each one is made in note 1 to the accounts. Where appropriate, the comparative figures for 1997/8 have been restated to conform to the new standard.

The new standard on 'Tangible fixed assets' (FRS 15) was published in February 1999. The group will be required to adopt this standard no later than for its 2000/1 financial year. This standard will require property assets to be disaggregated into their separable components and each component to be depreciated over its useful economic life.

DEBT PROFILE (£m)



Financial risks and treasury policies

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

Group Treasury manages the group's borrowings, liquidity, interest rate and foreign exchange exposures and banking relationships. The department operates in accordance with Board-approved policies designed to minimise these exposures. Group Treasury operates as a cost centre and it is not permitted to undertake transactions of a speculative nature. The Risk Committee, which is chaired by the group finance director, reviews and monitors compliance with these policies. In addition, Group Treasury is subjected to twice yearly internal audits.

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

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

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

Financial position

Net debt at the year end amounted to £868 million, resulting in a balance sheet gearing ratio of 33%.

Of the £779 million loan capital outstanding at the balance sheet date, £14 million had a maturity of between two and five years and £417 million had a maturity of more than five years. In addition, there were unused committed bank facilities at the financial year end of £189 million. These facilities expire in January 2001.

Interest rate risk management

At the year end £293 million (37%) of group sterling debt was fixed for a weighted average of 7.8 years, using fixed rate borrowings and interest rate swaps. The average rate of interest of this fixed rate debt was 7.5%. A further £70 million was covered by interest rate caps for 2.2 years with an average cap rate of 8.4%.

Based on the group's net debt position at the year end, a 1% change in interest rates would affect costs by approximately £5.4 million, or just over 1% of the 1998/9 operating profit.

Foreign currency risk management

The group limits the effect of movements in foreign exchange rates by partially matching investments in overseas subsidiaries with borrowings in the same currency. At the year end foreign currency borrowings amounted to £57 million, which represented 62% of the investment in overseas subsidiaries. Any foreign currency borrowings, other than those made to hedge overseas investments, have been swapped into sterling.

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

Year 2000

Many computer systems express dates using only the last two digits of the year. These systems require modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. The operation of our business depends not only on our own computer systems but also to some degree on those of our suppliers and customers. There is, therefore, an exposure to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

A group-wide programme, designed to address the impact of the Year 2000 on all our businesses, has been in place since 1996. An analysis of significant risks has been performed to determine the impact of the issue on all activities. From this, prioritised action plans have been developed which are designed to address the key risks in advance of critical dates and without disruption to the underlying business processes. Priority has been given to those systems which could cause a significant financial or legal impact on the company's business if they were to fail. The plan also included a requirement for the testing of all critical systems.

At the end of February 1999, 96% of the critical computer systems had been fixed and tested successfully. Plans are in hand to complete the programme by July 1999. In addition to the Year 2000 programme, there are a number of strategic replacement projects, the completion of which is necessary to accommodate the Year 2000. Other than one project, which is not due to be completed until the autumn, all of these projects are on course for completion by the middle of 1999.

Formal assurance about Year 2000 preparedness has been sought from key suppliers and customers. Visits have been made to critical suppliers in order to understand the potential risk to the supply chain. The results of these enquiries and visits are being input into the business continuity plans. These plans, which are being prepared by each business, will include an evaluation of the Year 2000 risks and contingency plans for dealing with failures.

Much of the cost of implementing the action plans has been subsumed into the recurring activities of each business. The total cost of modifications to our computer hardware and software is estimated at £8 million, of which some £1.8 million is for new equipment and systems enhancements that will be capitalised and the remainder will be expensed as incurred. Of this £6.2 million revenue cost, expenditure of £3.9 million was incurred during the year and £2.1 million had been incurred in previous years. The remaining expenditure will be incurred in 1999.

The Euro

At the beginning of the financial year a steering committee, consisting of representatives of our major businesses and support functions, was formed to monitor the Euro's development and implement the appropriate plans. A full time project manager has since been appointed. Regular reports on progress are considered by the Executive Committee. The immediate impact of the Euro is not significant for Whitbread. Work is, however, in hand to examine the impact if the UK were to decide to join the EMU.

*Non-executive director

1 SIR MICHAEL ANGUS*

Chairman

A director from 1986, and chairman from 1992, he is a member of the Remuneration Committee and also chairs the Nomination Committee. In addition he is deputy chairman of Boots and British Airways, a non-executive director of National Westminster Bank and chairman of RAC Holdings. He has been president of the CBI and chairman of Unilever. Aged 68.



2 DAVID THOMAS

Chief Executive

Appointed chief executive in 1997, he has been at Whitbread since 1984 and a director since 1991. His roles have included managing director of Whitbread Inns and Whitbread Restaurants and Leisure. Previously, he was with Finefare, Linfood and Grand Metropolitan. He is a trustee of Gifts in Kind UK, a member of the Food from Britain Council and the London Tourist Board, and a council member of the Brewers and Licensed Retailers Association. Aged 55.



3 ALAN PERELMAN

Finance Director

Finance director since 1990 and vice chairman of First Quench, he was also human resources director from 1994 until January 1998. He joined the company in 1989, having previously been at Gateway as finance director and at Rio Tinto in the UK and overseas. He is non-executive vice chairman of Norwich Union and is a member of the CBI Economic Affairs Committee. Aged 51.



4 DAVID RICHARDSON

Strategic planning director since 1993, he was appointed to the board in 1996. He has been with Whitbread since 1983, in roles including finance director of Whitbread Inns and planning director of Whitbread Restaurants and Leisure. He was previously at ICL, having trained as an accountant with Touche Ross. A member of the CBI Council. Aged 47.

5 BILL SHANNON

Managing director of Whitbread Inns and a director of Whitbread since 1994, he joined the company in 1974 as a finance manager and has since been managing director of Beefeater Restaurant & Pub, Thresher and Whitbread Pub Partnerships. He is a non-executive director of Scottish Equitable. Aged 49.

6 MILES TEMPLEMAN

Managing director of Whitbread Beer Company and chairman of Beefeater Restaurant & Pub, having previously been managing director of Thresher and group marketing director for Whitbread. He joined the company in 1985 and became a director in 1991. Before this, he was with Beecham Foods and Levi Strauss. He is a non-executive director of Albert Fisher Group and The Post Office and a member of the Portman Group. Aged 51.

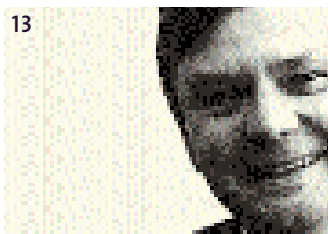
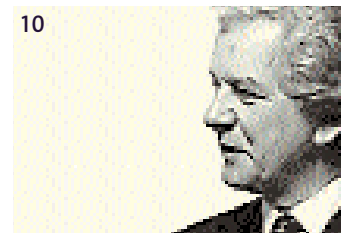
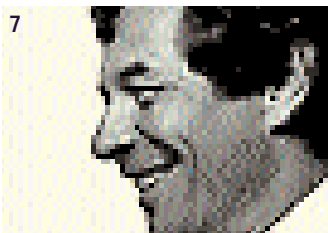
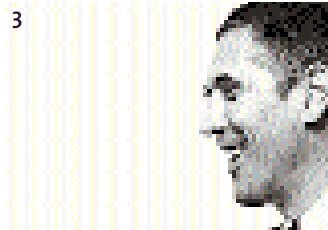
7 MARTIN BROUGHTON*

A director since 1993, he is also chairman of the Remuneration Committee and a member of the Nomination Committee. He is chairman of British American Tobacco and the CBI Companies Committee and a member of the Takeover Panel and the Financial Reporting Council. Aged 52.

8 LORD MACLAURIN*

Deputy Chairman

Appointed a director in 1997, and deputy chairman since March 1999, he is a member of the Remuneration and Nomination Committees. A former chairman of Tesco, he is chairman of Vodafone and of the England and Wales Cricket Board. Aged 62.



9 PRUE LEITH*

Appointed a director in 1995, she is a member of the Remuneration, Nomination and Audit Committees, a fellow and former chairman of the Royal Society of Arts and a former non-executive director of the Halifax. Aged 59.

10 JOHN PADOVAN*

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

11 KAREL VUURSTEEN*

A director since 1993, he is chairman of the executive board of Heineken and a member of the Supervisory Boards of Gucci Group and Electrolux and a member of the Advisory Council of ING Group. Aged 57.

12 SAM WHITBREAD*

A director since 1972 and chairman from 1984 to 1992, he is a member of the Remuneration, Nomination and Audit Committees. Aged 62.

13 LORD WILLIAMSON*

Appointed a director in May 1998. Before this, he was Secretary-General of the European Commission from 1987 to 1997, having been head of the European secretariat, UK Cabinet Office from 1983 to 1987 and Deputy Director General for Agriculture at the Commission between 1977 and 1983. He is a member of the Audit, Remuneration and Nomination Committees. Aged 64.

The directors present their report and accounts for the year ended 27 February 1999.

Results and dividends

The group profit before exceptional items and tax for the year amounted to £365.3 million, an increase of 3% from the previous year. The directors have recommended a final dividend for the year of 20.50 pence per ordinary share, payable on 16 July 1999 to shareholders on the register at close of business on 21 May 1999. The total dividend for the year, including the interim dividend of 7.28 pence per share paid on 11 January 1999, amounts to 27.78 pence per share, which represents an increase of 6.8% on the total dividend for the previous year. Shareholders may participate in a dividend reinvestment plan, under which their cash dividend is used to purchase additional shares in the company. Information on the plan is given on page 60.

Principal activities and review of the business

A detailed review of the company's activities and the development of its business, and an indication of likely future developments, are given on pages 4 to 13.

Board of directors

The directors are listed on pages 14 and 15. All of them served throughout the financial year, except Lord Williamson, who was appointed on 5 May 1998. Sir Michael Angus, David Richardson, Prue Leith, John Padovan and Karel Vuursteen retire from the board by rotation at the forthcoming Annual General Meeting and offer themselves for re-election.

Details of the service contracts and interests of the directors in the company's shares are given on pages 21 and 24 to 25 respectively. Of the directors proposed for re-election at the forthcoming annual general meeting, David Richardson has a service contract with a notice period of two years.

In common with all the other non-executive directors, Sir Michael Angus, Prue Leith, John Padovan and Karel Vuursteen do not have service contracts.

Property values

It is the group's policy to revalue each year 20% of all its UK properties, other than breweries and leasehold properties with a remaining term of less than 20 years. Each of these properties will therefore be revalued once every five years. Breweries and overseas properties are valued every fifth year. Leasehold properties with a remaining term of less than 20 years are not revalued.

During 1998/9 the directors carried out a revaluation of 20% of the group's properties other than breweries and leasehold properties with a remaining term of less than 20 years. The valuations were performed by the group's own professionally qualified staff in conjunction with external chartered surveyors, principally Gerald Eve.

The revaluation in 1998/9 was £6.9 million above book value. Included within the net surplus are individual deficits relating to properties identified for sale. £0.4 million of these deficits, representing the amounts below historical cost, has been charged to the profit and loss account. The remaining net surplus of £7.3 million has been added to the revaluation reserve. In addition, a charge to the profit and loss account of £13.2 million has been made in respect of an impairment in the values of certain other properties.

Supplier payment policy

The company keeps to the payment terms which have been agreed with a supplier. Where payment terms have not been specifically agreed, it is the company's policy to settle invoices close to the end of the month following the month of invoicing. The company's ability to keep to these terms is dependent upon suppliers sending accurate and adequately-detailed invoices to the correct address on a timely basis. The company had 45 days' purchases outstanding at 27 February 1999, based on the trade creditors and accruals outstanding at that date and purchases made during the year.

Employees and employment policies

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

The company is committed to increasing employee involvement and believes that effective two-way communication between the company and its employees brings real business benefits. Employees have opportunities to express their views at meetings with management and through regular employee opinion surveys.

Employee share schemes

Whitbread seeks to give its employees a direct stake in the business and to align their interests with those of other shareholders through share schemes. In June 1998, almost 470,000 ordinary shares were issued to the trustees of the Share Ownership Scheme on behalf of about 18,800 employees.

In November 1998, nearly 7,500 employees were granted options over 2.5 million shares at 638.3p under the terms of the Sharesave Scheme. Presently, more than 11,100 employees hold options over some 9.2 million shares under that Scheme.

During the year some 130 senior executives were granted options over a total of 640,000 shares under the executive share option schemes. These options may only be exercised if the performance criteria described on page 21 are met.

Potential awards over 142,000 shares were made to senior executives under the Long Term Incentive Plan, which is described on page 21.

Employee safety

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

Equal opportunities

Whitbread is committed to the principle that the sole criterion for selection or promotion is the suitability of an applicant for a job. Training and development are available to all levels and categories of staff. Disabled people are offered the same opportunities as all others in respect of recruitment, training, promotion and career development. Employees who become disabled will be retained, wherever possible, and, if necessary, retrained.

Environment

Whitbread recognises its responsibility to achieve good environmental practice and to continue to strive for improvement in its environmental impact. Every Whitbread business is required to set objectives relevant to its business, and to monitor and report annually on the achievement of its objectives and targets.

Charitable donations and investment in the community

During the year the group contributed £0.8 million for charitable purposes (1997/8 – £0.8 million). The total amount invested directly by the company in support of its Community Investment Programme initiatives was £2.5 million (1997/8 – £2.2 million). Recognising that this does not represent the full value of our community contribution we have for the first time applied the London Benchmarking Group's principles to recording and valuing all our community activity which has increased the contribution to £3.9 million. This does not include the substantial sums donated to good causes by Whitbread's customers through schemes facilitated by the Company, which amounts to more than £2 million. Our consistent approach to community involvement was recognised in June 1998 when Whitbread won the Company of the Year Award for Excellence in Corporate Community Investment, in the inaugural Business in the Community Awards.

No political donations were made during the year.

Research and development

By means of its research and development activities, the company seeks to develop and apply technology to enable Whitbread's businesses to meet their strategic objectives faster, more efficiently, and at lower cost. New technology is a vital component of the innovation programmes of each of the businesses and contributes to the creation of sustainable competitive advantage.

Major interests

As at 30 April 1999, the company had not been notified of any interest of 3% or more in the issued share capital of the company, other than the technical interest explained in note 24 to the accounts on page 50.

Going concern

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

Auditors

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

Annual General Meeting

The AGM will be held at 11am on 29 June 1999 at The Brewery, Chiswell Street, London EC1Y 4SD. The notice of meeting is enclosed with this report and is accompanied by a letter from the Chairman. In addition to the ordinary business of the meeting, shareholder consent will be sought to give authority for the purchase by the company of its own ordinary shares.

CORPORATE GOVERNANCE

The company is committed to high standards of corporate governance and has complied with the provisions set out in Section 1 of the Combined Code⁽¹⁾ throughout the year, with the exception of certain provisions relating to the appointment of a senior independent director and to directors' service contracts. These are dealt with below and on page 21 respectively.

The board of directors

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

The Whitbread board is made up of the chairman, deputy chairman, six other non-executive directors and five executive directors. This provides a proper balance of executive and non-executive directors for the good governance of the company. The members of the board are described on pages 14 and 15. The board meets at least ten times each year, with a very high rate of attendance on the part of all directors. It has a formal schedule of matters reserved to it for decision. Directors are given appropriate and timely information for each board meeting, including monthly reports on the current financial and trading position of each of the businesses. All directors have access to independent professional advice, if required, at the company's expense.

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

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

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

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

Board committees

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

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

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

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

The report on directors' remuneration on pages 20 to 25 gives full details of the company's policy on executive remuneration and of individual directors' remuneration packages. Throughout the financial year ended 27 February 1999 the company complied with the provisions concerning remuneration committees in the Code's Section B and Schedule A and its report has been drawn up in accordance with Schedule B of the Combined Code.

The committee meets at least twice a year. Its members are Martin Broughton (chairman), Sir Michael Angus, Prue Leith, Lord MacLaurin, John Padovan, Sam Whitbread, and Lord Williamson, all of whom are independent non-executive directors. The Chief Executive also attends meetings by invitation of the Chairman of the Committee. No director is

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

present during any meeting at which his or her own remuneration is discussed. The fees of the non-executive directors are a matter for the board, excluding the non-executive directors.

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

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

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

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

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

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

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

- **Christine Bulmer** human resources director
- **Stewart Miller** managing director, Whitbread Pub Partnerships
- **Alan Parker** managing director, Whitbread Hotel Company
- **Steve Philpott** managing director, David Lloyd Leisure
- **Hugh Siegle** managing director, Whitbread Property
- **Richard Simpson** managing director, Whitbread Restaurants
- **Alan Taylor** services director

Internal financial control

The company, as permitted by the London Stock Exchange, has complied with the Combined Code provisions on internal control by reporting on internal financial control in accordance with the guidance for directors on internal control and financial reporting which was issued in December 1994. Further guidance is awaited on the wider aspects of internal control relating to operational and compliance controls.

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

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

- Financial controls and procedures are set out in policy and procedures manuals, which are regularly reviewed and updated when appropriate.
- The internal audit function reports on the effectiveness of operational and financial controls across the group. The Audit Committee meets regularly with both the internal and external auditors to review their major findings and the resultant consequences.
- Limits of authority are prescribed for employees, all of whom are required to observe the company's Code of Business Ethics. The company's organisational structure allows the appropriate segregation of tasks.
- There are detailed appraisal and approval processes for capital expenditure and substantial revenue projects. In addition, a post-completion review of all major projects is undertaken.
- Treasury operations are conducted in accordance with detailed procedures and mandates. The Risk Committee reviews treasury activities monthly. This committee is chaired by the group finance director and comprises the strategic planning director, the group treasurer and other senior finance managers.
- Four-year business plans and one-year budgets are formulated, evaluated and approved annually by the board. Actual results and cash flows are reported monthly against budget and the previous year's figures. Revised profit and cash flow forecasts are prepared and reviewed monthly. Key risks are identified and action plans are prepared accordingly.

REMUNERATION REPORT

The directors confirm that they have reviewed the effectiveness of the system of internal financial control.

Auditors

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

Although the auditors also perform non-audit services for Whitbread, the committee is satisfied that such work is best handled by Ernst & Young because of their knowledge of Whitbread. Again, the committee believes their objectivity is not impaired by reason of this further work. Note 3 to the accounts on page 35 discloses the fees paid to Ernst & Young during the year.

Dialogue with shareholders

The company has regular meetings with institutional shareholders. The Annual General Meeting allows private shareholders to raise questions with the board, although enquiries from shareholders are dealt with throughout the year.

Code of business ethics

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

This report outlines the company's policy on executive remuneration and gives details of directors' pay and pensions for 1998/9, the interests of directors in the company's shares, and fees for non-executive directors. This report has been drawn up in accordance with Schedule B of the Combined Code.

Remuneration policy

The company has to be able to attract, retain and motivate high calibre executives. The Remuneration Committee therefore takes advice from independent pay consultants, Towers Perrin, on the executive packages offered by 25 comparable FT-SE 100 companies as a comparator group. It is an important principle of the company's pay policy that rewards should generally be in line with, but not exceed, what is offered by the comparator group. It also has regard to the wider scene including the approach to pay taken elsewhere in the company.

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

The main aims of the company's executive pay policy are that the packages offered to directors should be competitive in the market and that they should have a significant performance-related element. The components of the packages are salary, taxable benefits, annual performance related payments, share schemes and awards under a long term incentive plan.

Salary

The Remuneration Committee reviews executive directors' salaries each year. In doing so, it takes into account Towers Perrin's assessment of market movement in the salaries for equivalent positions in the comparator group and of the salary awards to the company's UK employees as a whole.

Taxable benefits

Taxable benefits include health care, a company car and other, minor, ancillary benefits.

Annual performance-related payments

Executive directors can receive an annual bonus, which has separate cash and share elements. The cash bonus of up to 40% of salary is achieved if appropriate company, divisional and personal objectives are met, using both financial and non-financial performance measures. The committee approves the targets each year and bonuses are paid based on the extent to which the targets are achieved.

In addition, a bonus of up to 10% of salary may be paid in Whitbread shares depending on the performance of the company. This is only paid if specific performance criteria are met.

Share schemes

The committee, on behalf of the board, may grant executive directors and senior managers options over shares in the company under two executive share option schemes, one of which has been approved by the Inland Revenue. Executive options are granted at market price at the date of grant. Executive options granted during the year included replacement options. The committee only approves the grant of such options once it is confident that there has been a satisfactory improvement in the performance of the company over the preceding two to three years.

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

- either the growth in the company's adjusted earnings per share has exceeded the Retail Prices Index by more than six percentage points over a three-year period; or
- the company's total shareholder return ('TSR') has exceeded the average return of the FT-SE 100 companies over that period.

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

Long Term Incentive Plan

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

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

The actual number of shares a participant receives depends on the performance of the company over the three-year period. A participant receives the maximum number of shares only if the company's total shareholder return ranks twenty-fifth or above against that of the other companies in the FT-SE 100 index. For rankings between twenty-fifth and sixtieth the award declines proportionately, until at sixtieth ranking participants receive only 30% of the shares. Below sixtieth no shares are awarded.

Fees from external directorships

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

Directors' service contracts

The Remuneration Committee has reviewed the company's position with regard to directors' service contracts. These currently have two years' notice, the period having been successively reduced, from five to three years in 1993/4 and to two years in 1994/5.

A recent survey of notice periods for executives in the FT-SE 100 companies shows that around half have directors' service contracts with a notice period of longer than twelve months. The committee has taken external advice from independent consultants and considers that at the present time it is in the company's best interests and in line with market practice to keep the two-year notice period in order to be able to retain and recruit directors of an appropriate calibre. The committee recognises that this does not follow the recommendations of the Combined Code and will continue to review the company's position on this issue.

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

Directors' pay and pensions for 1998/9

Directors' pay

The table below shows a breakdown of the value of the various elements of pay received by the directors for the period from 1 March 1998 to 27 February 1999, except as otherwise indicated.

	BASIC SALARY £	TAXABLE BENEFITS £	PERFORMANCE RELATED PAYMENTS £	TOTAL EXCLUDING PENSIONS	
				1998/9 ⁽¹⁾ £	1997/8 ⁽¹⁾ £
Chairman					
Sir Michael Angus	191,604	20,815	–	212,419	209,657
Executive directors					
A S Perelman	294,732	15,725	53,101	363,558	365,426
D H Richardson ⁽²⁾	195,090	13,566	30,001	238,657	229,313
W M F C Shannon ⁽²⁾	255,620	14,062	42,901	312,583	323,044
M H Templeman ⁽²⁾	272,830	11,766	77,001	361,597	335,624
D M Thomas ⁽²⁾	453,515	11,188	74,400	539,103	498,474
Non-executive directors					
M F Broughton ⁽³⁾	27,000	–	–	27,000	26,000
Sir Michael Franklin ⁽⁴⁾	7,996	–	–	7,996	26,000
P M Leith	27,000	–	–	27,000	26,000
Lord MacLaurin	27,000	–	–	27,000	7,858
J M F Padovan ⁽⁶⁾	27,000	–	–	27,000	26,000
K Vuursteen ⁽³⁾	27,000	–	–	27,000	26,000
S C Whitbread	27,000	–	–	27,000	26,000
Lord Williamson ⁽⁵⁾	22,292	–	–	22,292	–

⁽¹⁾ Total emoluments for the period were £2,220,205. The total for 1997/8 was £2,321,883, which included £196,487 paid to Peter Jarvis for the part of the year for which he was a director. Mr Jarvis retired as a director on 17 June 1997.

⁽²⁾ During the year these directors repaid housing loans of £20,000 each from the company, made prior to their appointments as directors.

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

⁽⁴⁾ Sir Michael Franklin retired as a director on 16 June 1998. Subsequently he was retained as a consultant to chair the company's Food Safety Task Force until March 1999. He received £17,821 during the year for this work.

⁽⁵⁾ Lord Williamson was appointed on 5 May 1998.

⁽⁶⁾ In addition to these fees, Mr J M F Padovan receives £8,000 per annum as chairman of Whitbread Pension Trustees Limited.

Non-executive directors

With the exception of the chairman, whose details are given on page 22, non-executive directors receive fees of £27,000 per annum. The chairman and the non-executive directors are not eligible to take part in any of the performance-related share schemes, which are used to incentivise executives, nor can they have a company pension. None of the non-executive directors has a service contract.

Directors' pensions

The five executive directors are entitled to a pension under the Whitbread Group Pension Fund defined benefits pension arrangement. On retirement at the normal pension age of 60 with 20 years' service this would pay out a pension equal to two-thirds of the director's last 12 months' basic salary, subject to Inland Revenue limits. The Revenue has approved the pension arrangements, apart from part of those provided for Mr A S Perelman who is restricted by the Revenue's earnings cap.

These arrangements, which are non-contributory, also provide a pension if the executive director retires through ill-health. In the event of death in service before normal pension age a lump sum benefit equal to four times basic salary is paid to the estate, together with a spouse's and children's pension.

In the case of death following retirement, the director's spouse will receive a pension equal to 60% of the full entitlement. The first four eligible children will receive a pension equal to 12.5% and a lump sum equal to any balance of the first five years' pension payments.

A director retiring early between the ages of 50 and 60 may draw his accrued pension without any actuarial reduction. Directors are guaranteed an annual increase in line with the Retail Prices Index up to a maximum of 5%, subject to a minimum total rise since retirement of 2.5% per annum simple. Transfer values paid from the Fund make no allowance for any additional discretionary pension increases. Mr Perelman receives part of his benefits under an unfunded, unapproved pension arrangement to cover his earnings above the Inland Revenue cap. These bring his total benefits into line with those of the other executive directors.

None of the executive directors is accruing benefits under a money purchase scheme.

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

Pension entitlements

The pension entitlements of the executive directors at 27 February 1999 were:

	AGE	YEARS OF SERVICE	INCREASE IN ACCRUED ENTITLEMENT IN THE YEAR TO 27/2/99 £pa	ACCRUED ENTITLEMENT AT 27/2/99 £pa
A S Perelman	50	9	17,536	109,826
D H Richardson	47	16	13,586	73,921
W M F C Shannon	49	24	13,845	119,343
M H Templeman	51	13	16,607	118,709
D M Thomas	55	14	55,251	216,255

– Mr Perelman's entitlement includes an unfunded, unapproved pension arrangement. The remainder of his entitlement and that of all other executive directors is met from the Whitbread Group Pension Fund.

– A pension of £9,883 (1997/8 – £9,568) was paid to a past director in excess of his accrued pension entitlement.

Directors' interests in shares

Shares

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

	27/2/99	28/2/98
Sir Michael Angus	7,000	7,000
M F Broughton	3,727	3,620
Sir Michael Franklin	2,018 ⁽¹⁾	2,016
P M Leith	5,195	5,195
Lord MacLaurin	3,000	3,000
J M F Padovan	2,000	2,000
A S Perelman	49,456	42,163
D H Richardson	14,266	10,146
W M F C Shannon	25,303	16,113
M H Templeman	22,621	22,539
D M Thomas	41,192	39,977
K Vuursteen	—	—
S C Whitbread	3,255,344 ⁽²⁾	4,003,700 ⁽²⁾
Lord Williamson	500	— ⁽³⁾

⁽¹⁾ on retirement on 16 June 1998

⁽²⁾ includes non-beneficial holdings of 1,382,844 ordinary shares (1,540,100 at 28/2/98)

⁽³⁾ on appointment on 5 May 1998

Share Options

The executive directors held the following share options under the Executive Share Option Schemes and the Sharesave Scheme. The earliest date any of the Executive options could have been exercised was December 1993, with the latest date being June 2008. Sharesave options have a six months exercise period. No options lapsed during the year.

	OPTIONS					MARKET PRICE AT DATE OF EXERCISE	GAIN £	OPTIONS HELD AT 27/2/99	WEIGHTED ⁽³⁾ AVERAGE EXERCISE PRICE
	HELD AT 28/2/98	GRANTED DURING THE YEAR	EXERCISED DURING THE YEAR	GRANT/ EXERCISE PRICE					
A S Perelman	165,201	9,700 ⁽¹⁾	—	1027p	—	—	174,901	684.1p	
D H Richardson	115,462	10,900 ⁽¹⁾	—	1027p	—	—	126,287	646.6p	
		211 ⁽²⁾	—	638.3p	—	—			
			286 ⁽²⁾	418.9p	898.5p	1,372			
W M F C Shannon	100,890	33,500 ⁽¹⁾	—	1027p	—	—	134,390	784.5p	
M H Templeman	111,345	31,400 ⁽¹⁾	—	1027p	—	—	143,802	775.6p	
		1,057 ⁽²⁾	—	638.3p	—	—			
D M Thomas	238,841	49,000 ⁽¹⁾	—	1027p	—	—	287,841	651.9p	

⁽¹⁾ Executive Schemes options

⁽²⁾ Sharesave Scheme options

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

The mid-market price of Whitbread ordinary shares on the last business day before 27 February 1999 was 890p (1 March 1998 – 980.5p). The highest and lowest prices between those dates were 1121p and 695p respectively.

Long Term Incentive Plan

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

	POTENTIAL AWARDS HELD AT 1/3/98	POTENTIAL AWARD FOR THE THREE YEAR PERFORMANCE PERIOD ENDING ON 28/2/01 ⁽ⁱ⁾	ACTUAL AWARDS FOR THE PERFORMANCE PERIOD ENDED ON 28/2/98		POTENTIAL AWARDS HELD AT 27/2/99
			SHARES	VALUE £ ⁽ⁱⁱ⁾	
A S Perelman	52,862	13,982	11,843	92,494	46,424
D H Richardson	29,821	8,907	6,276	48,200	27,906
W M F C Shannon	41,489	12,351	8,613	68,042	38,989
M H Templeman	48,181	13,143	10,497	104,445	43,225
D M Thomas ⁽ⁱⁱⁱ⁾	50,557	19,419	10,228	91,029*	52,341

Notes

⁽ⁱ⁾ The share price used to calculate the potential share entitlement maximum for the three-year performance period ending on 28 February 2001 was 965.5p.

⁽ⁱⁱ⁾ The value shown is that of the shares given to each director on the day he called for his award. *Mr D M Thomas has not yet called for his shares and a notional value is therefore shown, calculated using the price at 27 February 1999.

⁽ⁱⁱⁱ⁾ For the performance period ending on 27 February 1999, the company's TSR performance was ranked fifty-eighth (1997/8 – forty-sixth) relative to other companies in the FT-SE 100 index; accordingly, the participants in the Plan are entitled to 34% (1997/8 – 58%) of their maximum possible award. The actual awards to the executive directors for the performance period ended on 27 February 1999 were as follows:

	SHARES
A S Perelman	5,604
D H Richardson	2,987
W M F C Shannon	4,173
M H Templeman	5,127
D M Thomas	5,008

^(iv) The company funds an employee share ownership plan trust ('ESOP') to enable it to acquire and hold the necessary shares. The ESOP currently holds 345,262 shares; the executive directors each have a technical interest in all these shares. All dividends on shares in the ESOP are waived by the Trustee.

^(v) During the period from 27 February 1999 to 4 May 1999 no director has exercised his option to call for the transfer of his shares out of the Plan. The balance of the potential awards to the executive directors for this performance period, totalling 44,458, has lapsed.

Changes since 27 February 1999

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

There have been no other changes in directors' interests in ordinary shares since 27 February 1999.

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

By order of the board
S C Barratt, Company Secretary

4 May 1999

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

26 STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

The directors consider that in preparing the financial statements on pages 30 to 57, the group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable Accounting Standards have been followed.

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

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

We have audited the financial statements on pages 28 to 55, which have been prepared under the historical cost convention as modified by the revaluation of property and on the basis of the accounting policies set out on pages 28 and 29.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 26, the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and by our profession's ethical guidance.

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

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

We review whether the statement on page 18 reflects the company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of either the company's corporate governance procedures or its internal controls.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 27 February 1999 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

Registered Auditor
London

4 May 1999

A Accounting convention

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

B Basis of consolidation

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

C Fixed assets

Intangible fixed assets are depreciated on a straight line basis over their estimated useful economic lives up to a maximum of 20 years. Tangible fixed assets include properties professionally valued by chartered surveyors employed by the group and by external valuers. 20% of all UK properties, other than breweries and leasehold properties with a remaining term of less than 20 years, are revalued each year. Each of these properties will therefore be revalued once every five years. Breweries and overseas properties are valued every fifth year. Leasehold properties with a remaining term of less than 20 years are not revalued. Breweries are valued on a depreciated replacement cost basis and all other properties are valued at their existing use value, excluding surplus properties which are valued on the basis of open market value. Other fixed assets are stated at cost. Gross interest costs incurred on the financing of major projects are capitalised until the time that they are brought into use.

While it is the group's policy to depreciate fixed assets, the nature of the retail trade requires that, in order to protect that trade, retail premises are maintained in such a state of repair that their residual value is at least equal to their book amounts based on prices prevailing at the date of acquisition or subsequent valuation. In the opinion of the directors, any depreciation of freehold retail premises and leasehold retail premises where the lease has 20 or more years to run would not be material. Any impairment in the value of fixed assets below cost is charged to the profit and loss account. Depreciation is not provided on freehold land. The replacement of certain catering and other equipment is charged against operating profit. Depreciable fixed assets are written off on a straight line basis over their estimated useful lives, as follows:

- Freehold industrial and office buildings – over the lower of 50 years or the estimated remaining useful life from the later of the date of acquisition and latest valuation.
- Freehold land, freehold retail premises and leasehold retail premises where the lease has 20 or more years to run – nil.
- Leasehold industrial land and buildings – over the remaining terms of the leases.
- Leasehold retail premises where the lease has less than 20 years to run – over the remaining terms of the leases.
- Vehicles – over 4 to 10 years.
- Brewing plant and vessels – over 5 to 30 years.
- Other plant and machinery – mainly over 10 years.

Profits and losses on disposal of fixed assets reflect the difference between net selling price and net book value at the date of disposal.

D Stocks

Stocks are stated at the lower of cost and net realisable value. The cost of finished goods includes appropriate overheads. Cost is calculated on the basis of first in, first out and net realisable value is the estimated selling price less any costs of disposal.

E Foreign exchange

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

F Financial instruments

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

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

G Turnover

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

H Research and development

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

I Leases

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

J Pension funding

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

K Taxation

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

L Comparative amounts

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

YEAR ENDED 27 FEBRUARY 1999

NOTES	1998/9			1997/8			
	BEFORE EXCEPTIONAL ITEMS £m	EXCEPTIONAL ITEMS (NOTE 4) £m	TOTAL £m	BEFORE EXCEPTIONAL ITEMS £m	EXCEPTIONAL ITEMS (NOTE 4) £m	TOTAL £m	
	Turnover – continuing operations						
	Group and share of joint ventures	3,410.0	–	3,410.0	3,313.3	–	3,313.3
	Less share of joint ventures' turnover	(443.6)	–	(443.6)	(115.1)	–	(115.1)
2, 3	Group turnover	2,966.4	–	2,966.4	3,198.2	–	3,198.2
	Cost of sales	(2,205.8)	(27.3)	(2,233.1)	(2,421.3)	–	(2,421.3)
	Gross profit	760.6	(27.3)	733.3	776.9	–	776.9
	Net operating expenses	(361.3)	(2.5)	(363.8)	(392.6)	–	(392.6)
3, 4	Group operating profit – continuing operations	399.3	(29.8)	369.5	384.3	–	384.3
	Share of operating profit in:						
	Joint ventures	9.3	–	9.3	6.1	–	6.1
	Associates	9.9	–	9.9	14.0	–	14.0
2	Operating profit of the group, joint ventures and associates	418.5	(29.8)	388.7	404.4	–	404.4
	Non-operating items – continuing operations						
	Net profit on disposal of fixed assets						
	Group excluding joint ventures and associates	–	14.0	14.0	–	21.9	21.9
	Associates	–	–	–	–	4.7	4.7
29	Loss on the disposal of businesses	–	(17.9)	(17.9)	–	(0.5)	(0.5)
	Share of joint venture's fundamental restructuring costs	–	(6.9)	(6.9)	–	–	–
	Profit before interest	418.5	(40.6)	377.9	404.4	26.1	430.5
7	Interest	(53.2)	–	(53.2)	(49.6)	–	(49.6)
	Profit before taxation	365.3	(40.6)	324.7	354.8	26.1	380.9
8	Taxation	(78.0)	2.5	(75.5)	(82.0)	–	(82.0)
	Profit after taxation	287.3	(38.1)	249.2	272.8	26.1	298.9
	Equity minority interests	(0.2)	–	(0.2)	(0.2)	–	(0.2)
	Preference dividends	(0.4)	–	(0.4)	(0.4)	–	(0.4)
9	Profit earned for ordinary shareholders	286.7	(38.1)	248.6	272.2	26.1	298.3
10	Ordinary dividends	(137.2)	–	(137.2)	(127.9)	–	(127.9)
25	Retained profit for the year	149.5	(38.1)	111.4	144.3	26.1	170.4
11	Earnings per share (pence)						
	Basic			50.50			61.03
	Adjusted basic	58.24			55.69		
	Diluted			50.00			60.41
	Adjusted diluted	57.66			55.12		

31 STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

YEAR ENDED 27 FEBRUARY 1999

	1998/9 £m	1997/8 £m
Profit earned for ordinary shareholders		
Group excluding joint ventures and associates	245.0	282.9
Joint ventures	(1.7)	3.2
Associates	5.3	12.2
Group including joint ventures and associates	<u>248.6</u>	<u>298.3</u>
Unrealised surplus on revaluation of fixed assets	7.3	17.0
	<u>255.9</u>	<u>315.3</u>
Currency translation differences on net foreign investment	(0.8)	1.7
	<u>255.1</u>	<u>317.0</u>
Total gains and losses recognised since previous year end	<u>255.1</u>	<u>317.0</u>

HISTORICAL COST PROFITS AND LOSSES

YEAR ENDED 27 FEBRUARY 1999

	1998/9 £m	1997/8 £m
Reported profit before taxation	324.7	380.9
Realisation of revaluation gains/(deficits)	32.1	(16.6)
Difference between the historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	1.3	0.9
Historical cost profit before taxation	<u>358.1</u>	<u>365.2</u>
Historical cost profit for the year retained after taxation, minority interests and dividends	<u>144.8</u>	<u>154.7</u>

27 FEBRUARY 1999

NOTES	GROUP 1999 £m	GROUP 1998 £m	COMPANY 1999 £m	COMPANY 1998 £m
Fixed assets				
12 Intangible assets	8.5	—	—	—
13 Tangible assets	3,669.4	3,563.7	2,866.0	2,883.6
Investments				
14 In subsidiaries	—	—	900.4	839.1
15 In joint ventures				
Share of gross assets	302.8	47.6		
Share of gross liabilities	(132.0)	(18.4)		
	170.8	29.2	161.9	18.6
16 In associates	43.9	39.0	52.9	50.7
17 Other investments	27.3	35.0	25.1	32.6
	<u>3,919.9</u>	<u>3,666.9</u>	<u>4,006.3</u>	<u>3,824.6</u>
Current assets and liabilities				
18 Stocks	65.2	158.4	55.5	148.1
19 Debtors	190.5	222.1	159.2	184.0
Cash at bank and in hand	48.3	72.5	32.2	33.8
	304.0	453.0	246.9	365.9
20 Creditors – amounts falling due within one year	(764.5)	(858.3)	(713.7)	(749.2)
Net current liabilities	(460.5)	(405.3)	(466.8)	(383.3)
Total assets less current liabilities	3,459.4	3,261.6	3,539.5	3,441.3
Creditors – amounts falling due after more than one year				
21 Loan capital	(794.4)	(772.9)	(786.5)	(764.9)
23 Provisions for liabilities and charges	(28.4)	(9.4)	(17.3)	(8.0)
	<u>2,636.6</u>	<u>2,479.3</u>	<u>2,735.7</u>	<u>2,668.4</u>
Capital and reserves				
24 Called up share capital	133.4	132.8	133.4	132.8
24 Share premium account	180.8	162.1	180.8	162.1
25 Revaluation reserve	661.5	686.6	653.2	691.8
25 Other reserves – non distributable	10.9	9.8	314.0	314.0
25 Profit and loss account	1,647.9	1,486.0	1,454.3	1,367.7
26 Shareholders' funds	2,634.5	2,477.3	2,735.7	2,668.4
Equity minority interests	2.1	2.0	—	—
	<u>2,636.6</u>	<u>2,479.3</u>	<u>2,735.7</u>	<u>2,668.4</u>

D M Thomas A S Perelman
Director Director

4 May 1999

33 CASH FLOW STATEMENT

YEAR ENDED 27 FEBRUARY 1999

NOTES		1998/9		1997/8	
		£m	£m	£m	£m
27	Cash flow from operating activities		519.0		528.9
	Dividends received from joint ventures and associates		2.4		2.0
	Returns on investments and servicing of finance				
	Interest received	13.5		17.6	
	Interest paid	(79.6)		(75.1)	
	Other dividends received	0.1		0.1	
	Loan interest received	2.2		2.0	
	Preference dividends paid	(0.4)		(0.4)	
	Net cash outflow from returns on investments and servicing of finance		(64.2)		(55.8)
	Taxation				
	UK Corporation Tax paid	(72.5)		(54.8)	
	Overseas tax paid	–		(0.3)	
	Tax paid		(72.5)		(55.1)
	Capital expenditure and financial investment				
	Property and plant purchased	(443.2)		(461.9)	
	Investments purchased and loans advanced	(10.7)		(10.9)	
	Property and plant sold	116.6		117.9	
	Investments sold and loans realised	14.9		23.5	
	Net cash outflow from capital expenditure and financial investment		(322.4)		(331.4)
	Acquisitions and disposals				
28	New businesses acquired	(3.2)		(30.1)	
29	Businesses sold	(6.6)		26.2	
	Net cash outflow from acquisitions and disposals		(9.8)		(3.9)
	Equity dividends paid		(130.4)		(107.7)
	Net cash outflow before use of liquid resources and financing		(77.9)		(23.0)
	Management of liquid resources				
30, 31	Net movement on short-term securities and bank deposits		14.6		8.0
	Financing				
	Issue of shares	8.5		10.2	
30, 31	Net movement on short-term bank borrowings	8.7		21.8	
30, 31	Loan capital issued*	64.3		10.0	
30, 31	Loan capital repaid	(42.2)		(29.1)	
	Net cash inflow from financing		39.3		12.9
30, 31	Decrease in cash		(24.0)		(2.1)

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

1 CHANGES TO ACCOUNTING POLICIES

Detailed below are the accounting standards adopted for the first time in the 1998/9 accounts:

- Following the adoption of FRS 9 (Associates and joint ventures), further disclosures have been provided in respect of the results, assets, liabilities and cash flows of the group's interests in joint ventures and associates. The comparative figures for 1997/8 have been restated accordingly, resulting in an increase in both operating profit and the interest charge of £2.7m.
- Following the adoption of FRS 10 (Goodwill and intangible assets), goodwill arising on acquisitions will be capitalised and amortised over its estimated useful economic life. In addition the net balance in respect of payments made in previous years for distribution rights has been transferred to intangible fixed assets (note 12). Goodwill previously eliminated against reserves has not been reinstated.
- The effect of adopting FRS 11 (Impairment of fixed assets and goodwill) is disclosed in note 4.
- FRS 12 (Provisions, contingent liabilities and contingent assets) has been adopted, with the result that provisions against onerous lease contracts amounting to £8.0m, previously included in fixed assets, have been reclassified as provisions, see note 23.
- The requirements of FRS 13 (Derivatives and other financial instruments: disclosures) are complied with in notes 21, 22 and 24 to the accounts and in the Operating and Finance Review, page 12.
- FRS 14 (Earnings per share) has been adopted, although it has had no effect on the period being reported on, other than the disclosure of diluted earnings per share. This has not recently been published as it is not materially different from basic earnings per share.

2 SEGMENTAL ANALYSIS OF TURNOVER, PROFIT AND NET ASSETS

	1998/9				1997/8 (ADJUSTED)		
	TURNOVER £m	OPERATING PROFIT		NET ASSETS £m	TURNOVER £m	OPERATING PROFIT £m	NET ASSETS £m
		BEFORE EXCEPTIONAL ITEMS* £m	AFTER EXCEPTIONAL ITEMS* £m				
By business segment							
Beer	1,008.3	51.6	35.0	308.0	995.9	44.6	350.0
Pub Partnerships	144.8	57.3	57.3	401.4	154.8	61.3	411.8
Inns	828.7	179.1	179.1	1,291.1	806.8	171.9	1,220.8
Restaurants	703.1	62.7	49.5	680.3	731.3	69.8	669.4
Hotels	222.8	48.0	48.0	559.1	195.4	36.7	470.0
Sports, health and fitness	78.0	21.3	21.3	274.4	62.6	19.0	184.2
Other drinks	633.8	19.0	19.0	176.6	632.2	25.2	163.8
Segmental turnover, operating profit and net assets	3,619.5	439.0	409.2	3,690.9	3,579.0	428.5	3,470.0
Inter-segment turnover (see note below)	(272.2)				(323.7)		
Share of joint ventures' turnover	(443.6)				(115.1)		
Central services	62.7	(16.8)	(16.8)	(186.0)	58.0	(19.3)	(190.7)
Allocation to Whitbread Share Ownership Scheme		(3.7)	(3.7)			(4.8)	
	2,966.4	418.5	388.7	3,504.9	3,198.2	404.4	3,279.3
By geographical segment							
United Kingdom	2,895.5	413.1	383.3	3,481.9	3,111.0	397.4	3,258.9
Rest of the world	70.9	5.4	5.4	23.0	87.2	7.0	20.4
	2,966.4	418.5	388.7	3,504.9	3,198.2	404.4	3,279.3

*Exceptional items are described in note 4.

Following the introduction of FRS 9, Restaurants' segmental turnover includes the group's share of joint venture turnover amounting to £121.0m (1997/8 – £115.1m) and Other drinks includes the group's share of joint venture turnover amounting to £321.7m (1997/8 – nil). Inter-segment turnover is from Beer to the other segments. Central services turnover comprises, primarily, food distribution services provided to a joint venture. The geographical analysis of turnover and profit is by source. The analysis of turnover by destination is not materially different. Sales between geographical segments are not material. The results and net assets of the majority of Travel Inns are included in the divisions that operate them, not in Hotels. Net assets included above are total net assets plus net debt.

In the profit and loss account, turnover of the group and share of joint ventures includes sales from the group to joint ventures amounting to £137.6m (1997/8 – £50.6m) and the group's share of sales from joint ventures to the group of £11.4m (1997/8 – nil).

3 PROFIT AND LOSS ACCOUNT DETAILS

	1998/9			1997/8 £m
	BEFORE EXCEPTIONAL ITEMS £m	EXCEPTIONAL ITEMS (NOTE 4) £m	AFTER EXCEPTIONAL ITEMS £m	
Turnover	2,966.4	–	2,966.4	3,198.2
Cost of sales	(2,205.8)	(27.3)	(2,233.1)	(2,421.3)
Gross profit	760.6	(27.3)	733.3	776.9
Distribution to customers	(37.9)	(2.5)	(40.4)	(40.9)
Administration and other costs	(323.8)	–	(323.8)	(352.3)
Operating profit before investment income	398.9	(29.8)	369.1	383.7
Dividends from unlisted investments	0.1	–	0.1	0.1
Interest on trade loans	0.3	–	0.3	0.5
Operating profit	399.3	(29.8)	369.5	384.3

Included above are:

	1998/9 £m	1997/8 £m
Amortisation of intangible fixed assets (note 12)	0.5	–
Depreciation of tangible fixed assets (note 13)	110.1	108.9
Operating lease rentals:		
Hire of plant and machinery	17.4	16.3
Property	58.9	60.7
Research and development expenditure	3.3	3.6
Audit fees	0.8	0.7
Staff costs (note 6)	678.7	677.5

Fees paid to Ernst & Young for non-audit services in the UK amounted to £0.3m (1997/8 – £0.3m).

4 EXCEPTIONAL ITEMS

	1998/9 £m	1997/8 £m
Major rationalisation costs	(16.6)	–
Impairment of leasehold properties	(13.2)	–
Charged against operating profit	(29.8)	–
Non-operating items		
Net profit on disposal of fixed assets		
Group excluding joint ventures and associates	14.0	21.9
Associates	–	4.7
Loss on the disposal of businesses (note 29)	(17.9)	(0.5)
Share of joint venture's fundamental restructuring costs	(6.9)	–
	(40.6)	26.1

The costs of exiting two breweries, a bottling plant and a regional distribution depot and customer service centre have been charged against operating profit as an exceptional item. These costs result from a strategic review carried out by The Whitbread Beer Company of its manufacturing, distribution and customer service facilities. This review was conducted in response to the need to remain competitive in the light of the long term decline of the ale market. Following the introduction of FRS 11, an impairment of £13.2m, arising in respect of leasehold properties, has been charged to operating profit. The share of joint venture's fundamental restructuring costs relates to First Quench.

5 DIRECTORS' EMOLUMENTS

Details of directors' emoluments are disclosed in the Remuneration Report on pages 20 to 25.

6 STAFF COSTS AND NUMBERS

	1998/9 £m	1997/8 £m
Wages and salaries	617.0	617.2
Social security costs	47.5	46.0
Pension costs	14.2	14.3
	678.7	677.5

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

Funded schemes	13.4	13.5
Unfunded scheme	0.7	0.6
Overseas schemes	0.1	0.2
	14.2	14.3

The pension cost relating to the Whitbread Group Pension Fund is assessed in accordance with the advice of qualified actuaries, Bacon & Woodrow, using the projected unit credit valuation basis. The pension cost for the year has been based on the latest actuarial valuation which was carried out as at 31 March 1996. The main valuation assumptions were that the return on investments would be 4.5% per annum above inflation, that the annual increase in pensionable salaries (including promotional increases) would be 2.2% above inflation, that the annual increase in pensions in payment would average 0.5% below inflation and that dividend growth would be in line with inflation. The average expected remaining service life of current employees is twelve years. At the date of the valuation the market value of the fund's assets was £887.2m and the actuarial value of those assets represented 108% of the benefits that had accrued to the members. The contribution rate is designed to reduce the surplus to zero over the expected remaining service life of existing members. Membership of the fund at 27 February 1999 was 14,100 (1998 – 14,108). The pension prepayment included in debtors (note 19) represents funding paid to the Whitbread Group Pension Fund in excess of the pension cost, plus interest thereon. A valuation as at 31 March 1999 is currently being undertaken and the results will be accounted for in the accounts for 1999/2000.

	1998/9		1997/8	
	FULL-TIME	PART-TIME	FULL-TIME	PART-TIME
The average number of persons directly employed in the various sectors of the business was as follows:				
Beer	4,062	114	4,457	94
Pub Partnerships	234	7	249	12
Inns	16,379	17,962	16,287	17,749
Restaurants	14,717	8,479	14,909	9,406
Hotels	4,988	1,334	4,626	1,196
Sports, health and fitness	1,941	878	1,161	1,067
Other drinks	1,745	3,132	3,624	6,410
Central services	120	8	125	3
	44,186	31,914	45,438	35,937
Excluded from the above segments are employees of joint ventures as follows:				
Restaurants	3,495	9,957	3,055	9,709
Other drinks	3,691	4,870	–	–

7 INTEREST

	1998/9 £m	1997/8 £m
Interest payable and similar charges		
Bank loans and overdrafts	38.5	36.1
Other	36.3	36.7
	<u>74.8</u>	<u>72.8</u>
Deduct:		
Interest receivable on short-term deposits	(13.5)	(17.7)
Interest receivable from joint ventures and associates	(1.9)	(1.5)
Interest capitalised	(10.8)	(8.2)
	<u>48.6</u>	<u>45.4</u>
Interest payable by:		
Joint ventures	2.0	1.3
Associates	2.6	2.9
	<u>53.2</u>	<u>49.6</u>

8 TAXATION

	1998/9 £m	1997/8 £m
Current taxation on profits for the year		
UK Corporation Tax at 31% (1997/8 – 31.17%)	75.2	74.9
Overseas tax	0.4	0.1
	<u>75.6</u>	<u>75.0</u>
Adjustments to earlier periods		
Corporation Tax	(3.9)	2.6
Deferred tax (note 23)	–	(0.8)
	<u>71.7</u>	<u>76.8</u>
Joint ventures	1.8	1.6
Associates	2.0	3.6
	<u>75.5</u>	<u>82.0</u>

The UK and joint ventures' Corporation Tax charges have been reduced by £1.7m and £0.8m respectively (1997/8 – nil) in respect of tax relief on exceptional items. The charge for UK Corporation Tax on operating profit has been relieved by £29.1m (1997/8 – £24.8m) in respect of accelerated capital allowances. No tax has been provided against profits or losses on properties, investments and businesses sold in the year as taxable gains will be rolled over or relieved by available tax losses. The tax as a percentage of profit before tax, excluding exceptional and non-operating items and the tax thereon, was 21.4% (1997/8 – 23.1%).

9 PROFIT EARNED FOR ORDINARY SHAREHOLDERS

The profit and loss account of the parent company is omitted from the group accounts by virtue of the exemption granted by section 230 of the Companies Act 1985. The profit earned for ordinary shareholders and included in the accounts of the parent company amounted to £189.0m (1997/8 – £236.7m).

10 ORDINARY DIVIDENDS

		1998/9 £m	1997/8 £m
Interim	7.28 pence per share (1997/8 – 6.82 pence)	35.9	33.4
Proposed final	20.50 pence per share (1997/8 – 19.20 pence)	101.3	94.5
	27.78 pence per share (1997/8 – 26.02 pence)	137.2	127.9

11 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing earnings for ordinary shareholders of £248.6m (1997/8 – £298.3m) by the weighted average number of ordinary shares in issue during the year, 492.3m (1997/8 – 488.8m). Adjusted basic earnings per share is calculated as follows:

	EARNINGS (£m)		EARNINGS PER SHARE (p)	
	1998/9	1997/8	1998/9	1997/8
Earnings and basic earnings per share	248.6	298.3	50.50	61.03
Earnings and basic earnings per share attributable to:				
Exceptional costs, net of tax	27.3	–	5.55	–
Non-operating items, net of tax	10.8	(26.1)	2.19	(5.34)
Adjusted earnings and basic earnings per share	286.7	272.2	58.24	55.69

The adjusted earnings per share is presented so as to show more clearly the underlying performance of the group.

Diluted earnings per share is the basic and adjusted basic earnings per share after allowing for the dilutive effect of the conversion into ordinary shares of the weighted average number of options outstanding during the period. The number of shares used for the diluted calculation is 497.2m (1997/8 – 493.8m).

12 INTANGIBLE FIXED ASSETS

WHITBREAD GROUP	INTANGIBLES £m
Cost 28 February 1998	–
Reclassified from prepayments	10.0
Cost 27 February 1999	10.0
Amortisation 28 February 1998	–
Reclassified from prepayments	(1.0)
Amortisation for the period	(0.5)
Amortisation 27 February 1999	(1.5)
Net book amounts 27 February 1999	8.5
Net book amounts 28 February 1998	–

The reclassification included above represents the unamortised balance of payments made in previous years for distribution rights.

13 TANGIBLE FIXED ASSETS

WHITBREAD GROUP	INDUSTRIAL PROPERTY £m	RETAIL PROPERTY £m	PLANT & MACHINERY £m	TOTAL £m
Cost or valuation 28 February 1998	116.8	3,015.3	945.5	4,077.6
Foreign exchange movements	–	2.0	0.9	2.9
Additions	19.2	281.4	112.8	413.4
Interest capitalised	0.1	10.1	0.6	10.8
Businesses sold	(0.6)	(101.3)	(64.4)	(166.3)
Disposals	3.8	(91.4)	(110.2)	(197.8)
Provisions reclassified (see note 1)	–	8.0	–	8.0
Revaluation	(0.4)	6.7	–	6.3
Cost or valuation 27 February 1999	<u>138.9</u>	<u>3,130.8</u>	<u>885.2</u>	<u>4,154.9</u>
Depreciation 28 February 1998	(4.7)	(48.4)	(460.8)	(513.9)
Foreign exchange movements	–	(0.7)	(0.7)	(1.4)
Depreciation for the year	(12.0)	(8.4)	(89.7)	(110.1)
Businesses sold	(0.1)	13.0	43.1	56.0
Disposals	0.4	2.7	93.4	96.5
Impairment of leasehold properties	–	(13.2)	–	(13.2)
Revaluation	0.6	–	–	0.6
Depreciation 27 February 1999	<u>(15.8)</u>	<u>(55.0)</u>	<u>(414.7)</u>	<u>(485.5)</u>
Net book amounts 27 February 1999	<u>123.1</u>	<u>3,075.8</u>	<u>470.5</u>	<u>3,669.4</u>
Net book amounts 28 February 1998	<u>112.1</u>	<u>2,966.9</u>	<u>484.7</u>	<u>3,563.7</u>

During 1998/9 the directors carried out a revaluation of 20% of the group's UK properties, other than breweries and leasehold properties with a remaining term of less than 20 years. The valuations were performed in conjunction with the group's own professionally qualified staff and external chartered surveyors, principally Gerald Eve. The revaluation in 1998/9 was £6.9m above book value. Included within the net surplus are individual deficits relating to properties identified for sale. £0.4m of these deficits, representing the amounts below historical cost, has been charged to the profit and loss account. The remaining net surplus of £7.3m has been added to the revaluation reserve. In addition, a charge to the profit and loss account of £13.2m has been made in respect of an impairment in the values of certain other properties.

If this and previous revaluations had not taken place, the net book amounts of fixed assets would have been:

Cost	117.2	2,512.0	885.2	3,514.4
Depreciation	(36.5)	(45.2)	(414.7)	(496.4)
Net book amounts 27 February 1999	<u>80.7</u>	<u>2,466.8</u>	<u>470.5</u>	<u>3,018.0</u>
Net book amounts 28 February 1998	<u>69.1</u>	<u>2,329.2</u>	<u>484.7</u>	<u>2,883.0</u>

13 TANGIBLE FIXED ASSETS (CONTINUED)

WHITBREAD GROUP	FREEHOLD £m	LONG LEASEHOLD £m	SHORT LEASEHOLD £m	TOTAL £m
Net book amounts of properties				
27 February 1999	2,474.8	547.6	176.5	3,198.9
28 February 1998	2,399.1	502.7	177.2	3,079.0

	1999 £m	1998 £m
Cost or valuation of properties		
As valued 1998/9	574.6	—
As valued 1997/8	517.7	545.1
As valued 1996/7	376.1	386.5
As valued 1995/6	333.1	344.7
As valued 1994/5	304.1	338.1
As valued 1993/4	15.5	336.7
As valued 1992/3	11.1	47.9
At cost	1,137.5	1,133.1
	3,269.7	3,132.1
Capital expenditure commitments for which no provision has been made	86.3	101.3

WHITBREAD PLC	INDUSTRIAL PROPERTY £m	RETAIL PROPERTY £m	PLANT & MACHINERY £m	TOTAL £m
Cost or valuation 28 February 1998	116.3	2,387.4	801.2	3,304.9
Additions	19.0	161.2	82.0	262.2
Interest capitalised	0.1	7.1	0.6	7.8
Disposals	(2.3)	(88.9)	(93.8)	(185.0)
Transfers (to)/from subsidiary undertakings	5.5	(97.2)	(64.1)	(155.8)
Provisions reclassified (see note 1)	—	3.5	—	3.5
Revaluation	(0.4)	(1.3)	—	(1.7)
Cost or valuation 27 February 1999	138.2	2,371.8	725.9	3,235.9
Depreciation 28 February 1998	(4.8)	(20.8)	(395.7)	(421.3)
Depreciation for the year	(11.9)	(2.3)	(71.4)	(85.6)
Disposals	0.5	2.4	79.3	82.2
Transfers to/(from) subsidiary undertakings	(0.2)	12.6	41.8	54.2
Revaluation	0.6	—	—	0.6
Depreciation 27 February 1999	(15.8)	(8.1)	(346.0)	(369.9)
Net book amounts 27 February 1999	122.4	2,363.7	379.9	2,866.0
Net book amounts 28 February 1998	111.5	2,366.6	405.5	2,883.6

13 TANGIBLE FIXED ASSETS (CONTINUED)

WHITBREAD PLC

During 1998/9 the directors carried out a revaluation of 20% of the company's UK properties, other than breweries and leasehold properties with a remaining term of less than 20 years. The valuations were performed in conjunction with the company's own professionally qualified staff and external chartered surveyors, principally Gerald Eve. The revaluation in 1998/9 was £1.1m below book value. Included within the net deficit are individual deficits relating to properties identified for sale. £0.4m of these deficits, representing the amounts below historical cost, has been charged to the profit and loss account. The remaining net deficit of £0.7m has been deducted from the revaluation reserve.

If this and previous revaluations had not taken place, the net book amounts of fixed assets would have been:

	INDUSTRIAL PROPERTY £m	RETAIL PROPERTY £m	PLANT & MACHINERY £m	TOTAL £m
Cost	121.0	1,762.2	725.9	2,609.1
Depreciation	(36.5)	(7.7)	(346.0)	(390.2)
Net book amounts 27 February 1999	84.5	1,754.5	379.9	2,218.9
Net book amounts 28 February 1998	68.4	1,733.1	405.5	2,207.0
	FREEHOLD £m	LONG LEASEHOLD £m	SHORT LEASEHOLD £m	TOTAL £m
Net book amounts of properties				
27 February 1999	2,119.9	285.7	80.5	2,486.1
28 February 1998	2,114.5	272.7	90.9	2,478.1
			1999 £m	1998 £m
Cost or valuation of properties				
As valued 1998/9			419.3	—
As valued 1997/8			423.8	452.9
As valued 1996/7			283.8	295.8
As valued 1995/6			287.2	320.9
As valued 1994/5			289.5	323.7
As valued 1993/4			15.5	320.5
As valued 1992/3			8.1	25.5
At cost			782.8	764.4
			2,510.0	2,503.7
Capital expenditure commitments for which no provision has been made			63.6	77.7

14 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	1999 £m	1998 £m
Shares at or under cost		
28 February 1998	1,565.0	1,634.6
Foreign exchange movements	2.7	(7.1)
Additions	245.9	0.1
Disposal of Thresher	(127.9)	–
Other disposals	(2.2)	(62.6)
Impairment of investment in subsidiary undertakings	(39.7)	–
27 February 1999	1,643.8	1,565.0
Amounts due from subsidiary undertakings	213.6	268.1
Amounts due to subsidiary undertakings	(957.0)	(994.0)
	900.4	839.1

Principal subsidiary undertakings

	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION OR REGISTRATION	COUNTRY OF PRINCIPAL OPERATIONS	% OF EQUITY AND VOTES HELD
BrightReasons Group Ltd	Restaurants	England	England	100
Churrasco Steak-Restaurant GmbH*	Restaurants	Germany	Germany	100
Country Club Hotels Ltd	Hotels	England	England	100
David Lloyd Leisure Ltd	Leisure	England	England	100
The Pelican Group PLC	Restaurants	England	England	100
Whitbread Hotels Ltd	Hotels	England	England	100

Shares in the above are all held directly by Whitbread PLC unless marked with an asterisk. All subsidiary undertakings have the same year end as Whitbread PLC. All the above companies have been included in the group consolidation. The companies listed above are those which materially affect the amount of profit and the assets of the group. A full list of subsidiary undertakings, joint ventures and associates will be annexed to the next annual return of Whitbread PLC to be filed with the Registrar of Companies in August 1999.

15 UNLISTED INVESTMENTS IN JOINT VENTURES

	INVESTMENT £m	LOANS £m	TOTAL £m
WHITBREAD GROUP			
Share of net assets 28 February 1998	12.0	17.2	29.2
Investment in First Quench	132.2	13.1	145.3
Disposals	–	(2.0)	(2.0)
Share of retained profits less losses	(1.7)	–	(1.7)
Share of net assets 27 February 1999	<u>142.5</u>	<u>28.3</u>	<u>170.8</u>
Directors' valuation			
27 February 1999	174.0	28.3	202.3
28 February 1998	<u>33.2</u>	<u>17.2</u>	<u>50.4</u>
WHITBREAD PLC			
Cost 28 February 1998	1.5	17.1	18.6
Investment in First Quench	132.2	13.1	145.3
Disposals	–	(2.0)	(2.0)
Cost 27 February 1999	<u>133.7</u>	<u>28.2</u>	<u>161.9</u>
Directors' valuation			
27 February 1999	173.9	28.2	202.1
28 February 1998	<u>33.2</u>	<u>17.1</u>	<u>50.3</u>

Principal joint ventures	PRINCIPAL ACTIVITY	TOTAL EQUITY PAR VALUE (A) £m	WHITBREAD HOLDING OF (A)	TOTAL LOAN CAPITAL (B) £m	WHITBREAD HOLDING OF (B)	
					1999 £m	1998 £m
First Quench Retailing Ltd	Off-licences	100.3	50%	26.2	13.1	–
Preference capital		164.1	50%			
Pizza Hut (UK) Ltd	Restaurants	0.8	50%	30.2	15.1	17.1

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

	1999 £m	1998 £m
Analysis of share of net assets		
Goodwill	5.0	–
Tangible fixed assets	147.1	39.6
Current assets	150.7	8.0
Liabilities due within one year	(132.0)	(18.4)
Net assets	<u>170.8</u>	<u>29.2</u>

16 UNLISTED INVESTMENTS IN ASSOCIATES

WHITBREAD GROUP

	INVESTMENT £m	LOANS £m	TOTAL £m
Share of net assets 28 February 1998	34.9	4.1	39.0
Additions	2.2	–	2.2
Share of retained profits less losses	2.8	–	2.8
Other movements	(0.1)	–	(0.1)
Share of net assets 27 February 1999	39.8	4.1	43.9

Directors' valuation

27 February 1999	79.3	4.1	83.4
28 February 1998	82.8	4.1	86.9

WHITBREAD PLC

Cost 28 February 1998	46.6	4.1	50.7
Additions	2.2	–	2.2
Cost 27 February 1999	48.8	4.1	52.9

Directors' valuation

27 February 1999	79.3	4.1	83.4
28 February 1998	82.8	4.1	86.9

Principal associates

	PRINCIPAL ACTIVITY	TOTAL EQUITY PAR VALUE (A) £m	WHITBREAD HOLDING OF (A)	TOTAL LOAN CAPITAL (B) £m	WHITBREAD HOLDING OF (B)	
					1999 £m	1998 £m
	Britannia Soft Drinks Ltd	138.7	25%	2.8	–	–
	Poles Ltd	3.1	26%	16.3	4.1	4.1

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

17 OTHER INVESTMENTS

WHITBREAD GROUP	LISTED £m	UNLISTED £m	TRADE LOANS £m	TOTAL £m
Cost or valuation 28 February 1998	3.1	2.4	41.1	46.6
Additions	–	–	7.6	7.6
Disposals	(0.4)	(0.1)	(12.4)	(12.9)
Written off against provisions	–	–	(1.5)	(1.5)
Cost or valuation 27 February 1999	2.7	2.3	34.8	39.8
Amortisation/provisions 28 February 1998	(1.5)	–	(10.1)	(11.6)
Amortisation (see footnote)	(0.8)	–	–	(0.8)
Increase in provisions	–	–	(2.0)	(2.0)
Disposals	0.4	–	–	0.4
Written off against provisions	–	–	1.5	1.5
Amortisation/provisions 27 February 1999	(1.9)	–	(10.6)	(12.5)
Net book amounts 27 February 1999	0.8	2.3	24.2	27.3
Net book amounts 28 February 1998	1.6	2.4	31.0	35.0
Market value or directors' valuation				
27 February 1999	3.1	4.0	24.2	31.3
28 February 1998	4.0	3.2	31.0	38.2
WHITBREAD PLC				
Cost or valuation 28 February 1998	3.1	1.2	39.9	44.2
Additions	–	–	7.6	7.6
Disposals	(0.4)	(0.1)	(12.2)	(12.7)
Written off against provisions	–	–	(1.5)	(1.5)
Cost or valuation 27 February 1999	2.7	1.1	33.8	37.6
Amortisation/provisions 28 February 1998	(1.5)	–	(10.1)	(11.6)
Amortisation (see footnote)	(0.8)	–	–	(0.8)
Increase in provisions	–	–	(2.0)	(2.0)
Disposals	0.4	–	–	0.4
Written off against provisions	–	–	1.5	1.5
Amortisation/provisions 27 February 1999	(1.9)	–	(10.6)	(12.5)
Net book amounts 27 February 1999	0.8	1.1	23.2	25.1
Net book amounts 28 February 1998	1.6	1.2	29.8	32.6
Market value or directors' valuation				
27 February 1999	3.1	4.0	23.2	30.3
28 February 1998	4.0	3.2	29.8	37.0

Included in listed investments above are shares in Whitbread PLC purchased under the terms of the Long Term Incentive Plan (the "Plan") and held by an employee share ownership trust ("ESOP"), which is independently managed. At 27 February 1999 the Plan owned 0.35m shares (1998 – 0.4m) the market value of which was £3.1m (1998 – £4.0m). The cost of the shares is being amortised over three years, which is the earliest date on which the shares could be transferred to the participants, and charged against operating profit. The market value has not been reduced in line with the amortisation. The ESOP has waived its right to dividends on these shares. Administration costs of the Plan are expensed as incurred. The operation of the Plan is more fully described in the Remuneration Report on pages 20 to 25.

18 STOCKS

	GROUP 1999 £m	GROUP 1998 £m	COMPANY 1999 £m	COMPANY 1998 £m
Raw materials and consumables	15.0	16.0	14.0	15.1
Work in progress	6.0	8.0	5.3	5.5
Finished goods	44.2	134.4	36.2	127.5
	65.2	158.4	55.5	148.1

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

19 DEBTORS

	GROUP 1999 £m	GROUP 1998 £m	COMPANY 1999 £m	COMPANY 1998 £m
Trade debtors	90.0	82.4	76.9	71.2
Joint ventures	14.1	5.4	14.0	5.4
Associates	4.4	2.5	4.4	2.5
Other debtors	16.6	34.6	13.7	31.0
Prepayments and accrued income	58.7	65.6	50.2	50.3
Corporation Tax recoverable	6.7	31.6	–	23.6
	190.5	222.1	159.2	184.0

Included above are debtors not receivable within one year:

Pension prepayments	20.6	20.7	20.6	20.7
Other prepayments	–	8.5	–	–
Corporation Tax recoverable	4.3	29.9	–	23.6
	24.9	59.1	20.6	44.3

20 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	GROUP 1999 £m	GROUP 1998 £m	COMPANY 1999 £m	COMPANY 1998 £m
Loan capital (note 21)	10.0	10.3	5.2	5.5
Bank overdrafts	112.2	89.3	148.4	76.6
Trade creditors	183.0	209.1	161.5	187.9
Joint ventures	4.3	–	4.2	–
Associates	–	0.3	–	0.3
Corporation Tax	80.9	108.5	64.1	92.4
Other taxes and social security	52.5	56.3	45.9	51.6
Accruals and deferred income	128.8	170.3	104.9	142.4
Other creditors	91.5	119.7	78.2	98.0
Proposed final dividend on ordinary shares	101.3	94.5	101.3	94.5
	764.5	858.3	713.7	749.2

21 LOAN CAPITAL

WHITBREAD PLC	REPAYMENT DATES	INTEREST RATES	1999 £m	1998 £m
Secured:				
Debtenture stock, redeemable by instalments at par by operation of annual sinking fund	1999 to 2004	4.5%	1.4	1.4
Redeemable debtenture stock (nominal value £200.5m (1998 – £200.5m))	2011	11.625%*	212.7	213.3
Redeemable debtenture stock (nominal value £100.0m)	2021	8.125%*	100.0	100.0
Unsecured:				
Revolving credit facility	2001	Variable	340.9	274.5
Loan notes	1999 to 2002	Variable	1.6	2.1
Bank loan [#]	2003	Variable	27.1	43.8
Bank loans financing loans to customers	1999 to 2004	Variable	0.1	0.5
Loan stocks	2000 to 2005	10.5%	7.4	34.4
Bonds	2007	8.25%	99.2	99.1
Irredeemable loan stock		5.75%	1.3	1.3
Total – Whitbread PLC			791.7	770.4
Subsidiary undertakings				
Secured:				
Other loans	1999 to 2008	Variable	6.6	6.6
Bank loan	1999 to 2009	8%	5.6	5.6
Debtenture	Not fixed	Nil	0.5	0.6
Whitbread Group			804.4	783.2

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

*The company has entered into agreements which swap the fixed interest rate of £185.0m nominal value (£192.1m including premium) of the 11.625% debtenture stock for variable rates until 2011, and the fixed interest rate of the 8.125% debtenture stock for variable rates until 2021.

[#]The bank loan above is shown net of an investment of £187.7m (1998 – £173.6m) made by the company. Under the terms of the bank agreements the company has the right to offset the investment against the loan.

	GROUP 1999 £m	GROUP 1998 £m	COMPANY 1999 £m	COMPANY 1998 £m
Summarised as follows:				
Repayable:				
In one year or less, or on demand	6.5	7.2	1.7	2.4
In more than one year, but not more than two	341.2	27.3	341.0	27.1
In more than two years, but not more than five	14.1	275.5	12.8	274.8
In more than five years – repayable by instalments	5.8	5.8	1.4	1.4
– other	411.1	438.6	409.1	436.0
Total loans	778.7	754.4	766.0	741.7
Premiums, issue costs, etc.	25.7	28.8	25.7	28.7
	804.4	783.2	791.7	770.4
Deduct falling due within one year (note 20)	(10.0)	(10.3)	(5.2)	(5.5)
Falling due after more than one year	794.4	772.9	786.5	764.9

The total of instalment loans, any part of which falls due after more than five years, amounts to £7.1m (1998 – £7.5m).

Included within amounts repayable between one and two years are advances of £341.0m which are repayable in less than one year. (In 1998, amounts repayable between two and five years included advances of £199.7m which were made for periods of less than one year, and of £75.0m made for periods of between one and two years.) These advances were made under a five-year committed revolving credit facility agreement. Under the terms of the agreement, the participating banks are obliged, on demand, to refinance any amounts falling due for repayment until expiry of the facility. Details of unused committed facilities are disclosed in the Operating and Finance Review, see page 12. Overdrafts, which are all repayable within one year, are disclosed in note 20.

	28 FEBRUARY 1998 £	REDEEMED DURING YEAR £	27 FEBRUARY 1999 £	4 MAY 1999 £
Redeemable debtenture stock outstanding				
4.5% 1999/2004	1,383,914	–	1,383,914	1,383,914

22 FINANCIAL INSTRUMENTS

The group's objectives and policies on the use of financial instruments, including derivatives, can be found in the Operating and Finance Review, page 12. Amounts dealt with in this note exclude short-term assets and liabilities except cash, overdrafts and loan capital repayable in one year or less.

Analysis of interest rate exposure and currency of net debt

	TOTAL NET DEBT £m	CASH [†] £m	OVERDRAFTS [†] £m	LOAN CAPITAL [‡]			WEIGHTED AVERAGES RE FIXED RATE DEBT [#]	
				FLOATING RATE [§] £m	INTEREST FREE £m	FIXED RATE £m	INTEREST RATE	PERIOD RATE IS FIXED FOR
1999								
Sterling*	793.6	(39.4)	111.5	428.4	0.5	292.6	7.5%	7.8 years
Deutschmark	50.5	(6.7)	–	51.6	–	5.6	8.0%	10.8 years
Other currencies	(1.5)	(2.2)	0.7	–	–	–	–	–
	842.6	(48.3)	112.2	480.0	0.5	298.2		
Premiums, issue costs, etc.	25.7							
Net debt (note 30)	868.3							
1998								
Sterling*	722.2	(66.3)	89.3	431.1	0.6	267.5	8.0%	6.6 years
Deutschmark	49.9	(5.3)	–	49.6	–	5.6	8.0%	11.8 years
Other currencies	(0.9)	(0.9)	–	–	–	–	–	–
	771.2	(72.5)	89.3	480.7	0.6	273.1		
Premiums, issue costs, etc.	28.8							
Net debt (note 30)	800.0							

*Within sterling borrowings is a yen loan amounting to £79.4m (1998 – £75.0m) which has been swapped into sterling for its duration.

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

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

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

[#]The weighted averages for fixed rate debt exclude the irredeemable loan stock.

The preference stocks are excluded from the above analysis and are detailed in note 24.

In addition the group has purchased interest rate caps with an aggregate notional principal of £70.0m (1998 – £70.0m) and an average strike rate of 8.4% (1998 – 8.3%). The weighted average life of these contracts is 2.2 years (1998 – 3.2 years).

Fair values of financial instruments	CARRYING VALUES		FAIR VALUES	
	1999 £m	1998 £m	1999 £m	1998 £m
Cash, deposits and short-term borrowings	(63.9)	(16.8)	(63.9)	(16.8)
Loan capital	804.4	783.2	933.7	859.0
Derivatives relating to loan capital				
Interest rate swaps	–	–	(95.8)	(67.5)
Currency swaps	–	–	13.8	15.2
Caps and collars	–	–	–	0.2

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

Functional currencies of group operations

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

22 FINANCIAL INSTRUMENTS (CONTINUED)

Hedges

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

	LOSSES £m	NET TOTAL £m
1998/9		
Gains and losses unrecognised at 27 February 1999	15.1	15.1
Of which:		
Gains and losses expected to be recognised in the profit and loss account in 1999/2000	1.1	1.1
Gains and losses in the profit and loss account that arose in previous years	0.4	0.4
1997/8		
Gains and losses unrecognised at 28 February 1998	4.0	4.0
Of which:		
Gains and losses expected to be recognised in the profit and loss account in 1998/9	0.1	0.1

23 PROVISIONS FOR LIABILITIES AND CHARGES

	ACQUISITION AND DISPOSAL £m	DEFERRED TAX £m	REORGANISATION £m	ONEROUS CONTRACTS £m	TOTAL £m
WHITBREAD GROUP					
28 February 1998	1.4	8.0	–	–	9.4
Reclassified (see note 1)	–	–	–	8.0	8.0
Created	6.2*	–	16.6	–	22.8
Used	(1.0)	–	(10.8)	–	(11.8)
27 February 1999	6.6	8.0	5.8	8.0	28.4
WHITBREAD PLC					
28 February 1998	–	8.0	–	–	8.0
Reclassified (see note 1)	–	–	–	3.5	3.5
Created	–	–	16.6	–	16.6
Used	–	–	(10.8)	–	(10.8)
27 February 1999	–	8.0	5.8	3.5	17.3

*See note 29.

Deferred tax

The potential amount of deferred taxation not provided for in these accounts in respect of accelerated capital allowances is £230.3m (1998 – £220.6m). The potential amount for Whitbread PLC is £187.8m (1998 – £183.3m). No provision has been made for tax on any gains which might arise in the event of properties being sold at their revalued amounts, as in the ordinary course of business the majority of properties would be retained indefinitely. The potential amount of deferred taxation not provided in respect of any gains which might arise in the event of investments being sold at their valuation amounts is £9.8m (1998 – £9.0m) for both group and Whitbread PLC. No provision has been made for any additional liability to UK or overseas taxation on the distribution of unappropriated profits or reserves of certain associated undertakings and overseas subsidiaries, except to the extent that such distributions are expected.

24 SHARE CAPITAL

	AUTHORISED		ALLOTTED, CALLED UP AND FULLY PAID	
	1999 £m	1998 £m	1999 £m	1998 £m
Non-equity share capital				
Preference stocks				
3.15% (issued as 4.5%) first cumulative	0.6	0.6	0.6	0.6
3.15% (issued as 4.5%) second cumulative	0.4	0.4	0.4	0.4
3.85% (issued as 5.5%) third cumulative	2.1	2.1	2.1	2.1
4.20% (issued as 6%) third cumulative	3.7	3.7	3.7	3.7
4.90% (issued as 7%) third cumulative	3.0	3.0	3.0	3.0
	9.8	9.8	9.8	9.8
Equity share capital				
Ordinary shares of 25p each	176.0	176.0	123.6	123.0
	185.8	185.8	133.4	132.8

At 27 February 1999 the preference stock in issue was 9.8m (1998 – 9.8m) and there were 494.3m ordinary shares in issue (1998 – 492.0m).

The preference stocks are irredeemable and carry no votes at general meetings except on the following subjects: altering the directors' borrowing powers; winding up the company; reducing the company's capital; sanctioning the sale of an undertaking; or altering the rights of preference stockholders. On a winding up of the company the preference stockholders have a right to receive the par value of their stock, plus any accrued interest, in preference to ordinary shareholders. The fair value of the preference stocks at 27 February 1999 was £9.5m (1998 – £8.4m), based on market prices.

	SHARE CAPITAL £m	SHARE PREMIUM £m
Ordinary shares		
28 February 1998	123.0	162.1
Movements during the year:		
Issued to employees by exercise of options	0.5	14.1
Issued to employees under Share Ownership Scheme	0.1	4.6
27 February 1999	123.6	180.8

At 27 February 1999 there were outstanding options for employees to purchase up to 14.5m (1998 – 14.5m) ordinary shares of 25p each between 1999 and 2008 at prices ranging between 416.2 pence per share and 1027.0 pence per share. During the year to 27 February 1999 options on 1.8m (1997/8 – 2.3m) ordinary shares of 25p each, fully paid, were exercised by employees under the terms of various share option schemes and the directors exercised their discretion under the Share Ownership Scheme to issue 0.5m (1997/8 – 0.6m) ordinary shares of 25p each, fully paid, to the trustees of the scheme.

Note

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

25 RESERVES

	REVALUATION RESERVE £m	OTHER NON- DISTRIBUTABLE RESERVES £m	PROFIT & LOSS ACCOUNT £m	JOINT VENTURES & ASSOCIATES £m	TOTAL £m
WHITBREAD GROUP					
28 February 1998	686.6	11.0	1,486.0	(1.2)	2,182.4
Currency translation differences	(0.3)		(0.5)		(0.8)
Profit retained			110.2	1.2	111.4
Discount on shares issued to employees under share option schemes, less tax			(4.2)		(4.2)
Revaluation of tangible fixed assets	7.3				7.3
Realised revaluation surplus transferred to the profit and loss account	(32.1)		32.1		–
Goodwill on disposals (note 29)			24.3		24.3
Other movements				(0.1)	(0.1)
27 February 1999	661.5	11.0	1,647.9	(0.1)	2,320.3
WHITBREAD PLC					
28 February 1998	691.8	314.0	1,367.7		2,373.5
Currency translation differences			1.1		1.1
Profit retained			51.8		51.8
Discount on shares issued to employees under share option schemes, less tax			(4.2)		(4.2)
Revaluation of tangible fixed assets	(0.7)				(0.7)
Realised revaluation surplus transferred to the profit and loss account	(37.9)		37.9		–
27 February 1999	653.2	314.0	1,454.3		2,421.5
					£m
Analysis of other non-distributable reserves					
Merger reserve				303.0	303.0
Capital redemption reserve fund	11.0	11.0		11.0	11.0
	11.0	11.0		314.0	314.0
					£m
Goodwill					
Net amount written off to 28 February 1998					616.4
Disposal					(24.3)
Net amount written off to 27 February 1999					592.1

26 SHAREHOLDERS' FUNDS

	1999 £m	1998 £m
Movements in shareholders' funds		
Shareholders' funds at 28 February 1998	2,477.3	2,262.7
Profit earned for ordinary shareholders	248.6	298.3
Dividends	(137.2)	(127.9)
	111.4	170.4
Dividend written back in respect of scrip dividend	–	11.2
Revaluation of tangible fixed assets	7.3	17.0
Other recognised gains and losses relating to the year	(0.8)	1.7
Goodwill on acquisitions	–	(12.1)
Goodwill on disposal	24.3	9.7
Other reserve movements	(0.1)	–
Share capital issued	15.1	16.7
Shareholders' funds at 27 February 1999	<u>2,634.5</u>	<u>2,477.3</u>
Analysis of shareholders' funds		
Equity shareholders' funds	2,624.7	2,467.5
Non-equity shareholders' funds	9.8	9.8
	<u>2,634.5</u>	<u>2,477.3</u>

27 NET CASH INFLOW FROM OPERATING ACTIVITIES

	1998/9 £m	1997/8 £m
Group operating profit	369.5	384.3
Investment income	(0.4)	(0.6)
Depreciation/amortisation	110.6	108.9
Impairment of leasehold properties	13.2	–
Other non-cash items	15.1	14.7
Rationalisation costs associated with acquired businesses	(0.6)	(2.1)
(Increase)/decrease in stocks	32.2	(6.7)
Increase in debtors	(25.6)	(0.2)
Increase in creditors	5.0	30.6
Cash flow from operating activities	<u>519.0</u>	<u>528.9</u>

28 ACQUISITIONS

	1998/9 £m	1997/8 £m
Cash outflow in respect of new businesses acquired		
Cost of acquisitions	–	34.5
Deferred consideration	–	(3.6)
Payments in respect of previous years' acquisitions	3.2	0.4
Cash and overdrafts of businesses acquired	–	(1.2)
Cash outflow	<u>3.2</u>	<u>30.1</u>

29 DISPOSALS

	1998/9 £m
First Quench – assets disposed of and shares acquired	
Tangible fixed assets	110.3
Net working capital, excluding cash	15.8
Cash	<u>6.6</u>
Carrying value of Thresher's net assets	132.7
Goodwill written back (note 25)	<u>24.3</u>
	157.0
Fair value of shares and loan acquired in First Quench	<u>(145.3)</u>
Loss on the disposal of Thresher in exchange for a 50% share of First Quench Retailing Ltd.	11.7
Other disposals	
Provision for loss on the disposal of Gatehouse Nurseries (note 23)	<u>6.2</u>
	<u>17.9</u>
Cash outflow	
Cash held by Thresher transferred to First Quench	<u>(6.6)</u>

30 BALANCE SHEET MOVEMENTS IN CASH AND NET DEBT

	1998 £m	CASH FLOW £m	FOREIGN EXCHANGE £m	AMORTISATION OF PREMIUMS AND DISCOUNTS £m	1999 £m
1998/9					
Cash	72.5				48.3
Overdrafts (note 20)	(89.3)				(112.2)
	(16.8)	(47.3)	0.2	–	(63.9)
Less short-term securities, bank deposits and borrowings	31.9	23.3	–	–	55.2
Cash	15.1	(24.0)	0.2	–	(8.7)
Short-term securities and bank deposits	25.4	(14.6)	–	–	10.8
Short-term bank borrowings	(57.3)	(8.7)	–	–	(66.0)
Loan capital under one year	(10.3)				(10.0)
Loan capital over one year	(772.9)				(794.4)
Total loan capital (note 21)	(783.2)	(22.1)	(2.2)	3.1	(804.4)
Net debt	(800.0)	(69.4)	(2.0)	3.1	(868.3)
1997/8					
Cash	85.3				72.5
Overdrafts (note 20)	(74.4)				(89.3)
	10.9	(31.9)	4.2	–	(16.8)
Less short-term securities, bank deposits and borrowings	2.1	29.8	–	–	31.9
Cash	13.0	(2.1)	4.2	–	15.1
Short-term securities and bank deposits	33.4	(8.0)	–	–	25.4
Short-term bank borrowings	(35.5)	(21.8)	–	–	(57.3)
Loan capital under one year	(10.7)				(10.3)
Loan capital over one year	(794.1)				(772.9)
Total loan capital (note 21)	(804.8)	19.1	(0.4)	2.9	(783.2)
Net debt	(793.9)	(12.8)	3.8	2.9	(800.0)

31 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	1998/9 £m	1997/8 £m
Decrease in cash in the period	(24.0)	(2.1)
Cash (inflow)/outflow from movement in loan capital	(22.1)	19.1
Cash inflow from movement in liquid resources	(14.6)	(8.0)
Cash inflow from movement in short-term borrowings	(8.7)	(21.8)
Changes in net debt resulting from cash flows	<u>(69.4)</u>	<u>(12.8)</u>
Foreign exchange movements	(2.0)	3.8
Amortisation of premiums and discounts	3.1	2.9
Movement in net debt in the period	<u>(68.3)</u>	<u>(6.1)</u>
Opening net debt	<u>(800.0)</u>	<u>(793.9)</u>
Closing net debt	<u>(868.3)</u>	<u>(800.0)</u>

32 RELATED PARTIES

Material transactions with related parties consisted of purchases of soft drinks from Britannia Soft Drinks Ltd amounting to £17.1m (1997/8 – £25.4m), sales of food and drink to Pizza Hut (UK) Ltd amounting to £60.2m (1997/8 – £50.6m), sales of drinks to First Quench Retailing Ltd of £77.4m (1997/8 – nil) and purchases of drinks from First Quench Retailing Ltd of £22.8m (1997/8 – nil). Details of loans to joint ventures and associates are shown in notes 15 and 16. Transactions with directors may be found in the Remuneration Report on pages 20 to 25.

33 CONTINGENT LIABILITIES

There were no material contingent liabilities at 27 February 1999 or 28 February 1998.

34 LEASE COMMITMENTS

	PROPERTY £m	PLANT & MACHINERY £m	1999 TOTAL £m	PROPERTY £m	PLANT & MACHINERY £m	1998 TOTAL £m
WHITBREAD GROUP						
Annual payments under operating leases which expire:						
Within one year	1.6	2.5	4.1	4.5	3.1	7.6
Between one and five years	7.0	8.9	15.9	8.4	9.9	18.3
After five years	45.7	0.8	46.5	50.9	–	50.9
	<u>54.3</u>	<u>12.2</u>	<u>66.5</u>	<u>63.8</u>	<u>13.0</u>	<u>76.8</u>
WHITBREAD PLC						
Annual payments under operating leases which expire:						
Within one year	0.3	2.2	2.5	1.5	2.9	4.4
Between one and five years	1.4	8.2	9.6	3.0	9.3	12.3
After five years	19.2	0.2	19.4	30.5	–	30.5
	<u>20.9</u>	<u>10.6</u>	<u>31.5</u>	<u>35.0</u>	<u>12.2</u>	<u>47.2</u>

35 FOREIGN EXCHANGE RATES

The average deutschmark exchange rate used during the year was 2.889 (1997/8 – 2.886) and the closing rate was 2.854 (1998 – 2.988).

PROFIT AND LOSS ACCOUNT (£m)	1994/5	1995/6	1996/7	1997/8	1998/9
Turnover of group and joint ventures	2,556.4	2,840.2	3,131.0	3,313.3	3,410.0
Group turnover	2,471.8	2,749.9	3,027.2	3,198.2	2,966.4
Operating profit of the group, joint ventures and associates	266.0	305.7	356.1	404.4	418.5
Operating profit as % of turnover of group and joint ventures	10.4%	10.8%	11.4%	12.2%	12.3%
Profit before exceptional items and tax	255.1	283.1	316.5	354.8	365.3
Profit before tax	275.4	285.7	302.8	380.9	324.7
Basic earnings per share (pence)	42.76	46.08	50.84	61.03	50.50
Adjusted basic earnings per share (pence)	38.52	43.25	48.78	55.69	58.24
Ordinary dividends per share (pence)	20.20	21.85	23.80	26.02	27.78
Interest cover (times covered) [#]	24.4	13.5	9.0	8.2	7.9
Adjusted ordinary dividend cover (times covered) [*]	1.9	2.0	2.0	2.1	2.1
Average number of employees – full-time	33,374	38,158	44,073	45,438	44,186
– part-time	30,714	32,436	36,001	35,937	31,914

Notes

Changes in accounting policies have, where material, been reflected in prior years.

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

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

BALANCE SHEET (£m)	1995	1996	1997	1998	1999
Intangible fixed assets	–	–	–	–	8.5
Tangible fixed assets	2,464.6	2,958.3	3,247.5	3,563.7	3,669.4
Investments	165.0	112.6	105.2	103.2	242.0
Total fixed assets	2,629.6	3,070.9	3,352.7	3,666.9	3,919.9
Current assets	622.9	464.0	489.7	453.0	304.0
Creditors – amounts falling due within one year	(605.9)	(736.0)	(771.4)	(858.3)	(764.5)
Net current assets/(liabilities)	17.0	(272.0)	(281.7)	(405.3)	(460.5)
Total assets less current liabilities	2,646.6	2,798.9	3,071.0	3,261.6	3,459.4
Creditors – amounts falling due after more than one year	(338.0)	(529.7)	(794.1)	(772.9)	(794.4)
Provisions for liabilities and charges	(30.1)	(12.0)	(12.4)	(9.4)	(28.4)
	2,278.5	2,257.2	2,264.5	2,479.3	2,636.6
Called up share capital	129.7	130.6	131.7	132.8	133.4
Share premium account	114.0	125.6	142.2	162.1	180.8
Reserves	2,029.9	1,996.1	1,988.8	2,182.4	2,320.3
Shareholders' funds	2,273.6	2,252.3	2,262.7	2,477.3	2,634.5
Equity minority interests	4.9	4.9	1.8	2.0	2.1
	2,278.5	2,257.2	2,264.5	2,479.3	2,636.6
Net debt [*]	59.4	501.9	793.9	800.0	868.3
Gearing (%) [†]	2.6	22.2	35.1	32.3	32.9
Net asset value per ordinary share (pence)	472.0	464.0	461.9	501.5	531.0

Notes

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

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

CASH FLOW (£m)	1994/5	1995/6	1996/7	1997/8	1998/9
Cash flow from operating activities	324.4	413.2	434.5	528.9	519.0
Dividends from joint ventures and associates	2.1	3.8	2.2	2.0	2.4
Returns on investments and servicing of finance	(8.1)	(20.5)	(39.9)	(55.8)	(64.2)
Taxation	(37.4)	(49.3)	(61.9)	(55.1)	(72.5)
Capital expenditure and financial investment [§]	59.7	(264.2)	(335.1)	(331.4)	(322.4)
Acquisitions and disposals [‡]	(28.7)	(385.2)	(183.2)	(3.9)	(9.8)
Equity dividends paid	(90.1)	(94.1)	(102.7)	(107.7)	(130.4)
Net cash inflow/(outflow) before financing	221.9	(396.3)	(286.1)	(23.0)	(77.9)
Management of liquid resources	(139.1)	199.7	27.8	8.0	14.6
Financing	(44.9)	175.0	264.8	12.9	39.3
Increase/(decrease) in cash	37.9	(21.6)	6.5	(2.1)	(24.0)
§Capital expenditure and financial investment					
Property and plant purchased	(227.1)	(333.9)	(409.4)	(461.9)	(443.2)
Property and plant sold	48.1	30.5	61.1	117.9	116.6
Net investment and loan decrease	6.3	17.9	13.2	12.6	4.2
Net disposals of non-trading investments	232.4	21.3	–	–	–
	59.7	(264.2)	(335.1)	(331.4)	(322.4)
‡Acquisitions and disposals					
New businesses acquired	(28.7)	(393.4)	(183.2)	(30.1)	(3.2)
Businesses sold	–	8.2	–	26.2	(6.6)
	(28.7)	(385.2)	(183.2)	(3.9)	(9.8)

Accelerated capital allowances

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

Achieved room rate

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

Associate

A company over which Whitbread exercises a significant influence

Bond

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

Capital expenditure

Investment in new property and plant

Capital receipts

Proceeds from disposals of property and plant

Capitalised interest

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

Creditors

Amounts due to suppliers and others

Debenture

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

Debtors

Amounts due from customers and others, plus payments in advance

Deferred tax

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

Depreciation

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

Derivative

A financial instrument that derives its value from the price or rate of an underlying item

Distributable reserves

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

Dividend cover

Earnings per share divided by dividend per share

Dividend per share

The amount a shareholder will receive for each share owned

Earnings per share – basic

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

Earnings per share – adjusted

As basic, adjusted for the effects of exceptional items and tax thereon

Earnings per share – diluted

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

Equity minority interests

Amounts invested in subsidiaries attributable to third parties

Exceptional items

Items arising outside normal activities of the business

Fixed assets

Assets used by the group on a long-term basis

Gearing

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

Goodwill

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

Hedge

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

Impairment

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

Intangible assets

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

Interest rates

– floating – an interest rate which moves in line with changes in the money market
– fixed – an interest rate held for the duration of the contract which does not move in line with the market

- cap – a contract with a bank that limits the amount of interest payable on a debt with a floating interest rate usually in exchange for payment of a premium
- swap – a contract with a bank that allows a fixed rate of interest to be paid on debt which has a floating rate or vice versa

Investments

Amounts invested in other businesses

Joint venture

An entity over which Whitbread has joint control

LIBOR

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

Like-for-like sales

Total sales less sales generated by businesses acquired or disposed of and retail outlets opened or closed during 1997/8 or 1998/9

Margin

Profit expressed as a percentage of sales

Market capitalisation

The Stock Market value of the company, derived from multiplying the number of its shares in issue by the share price

Market Yield Curve

A mathematical method for estimating future interest rates

Net asset value per share

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

Net debt

Loan capital plus bank overdrafts less cash

Occupancy

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

Off-licence

An outlet licensed to sell alcohol for consumption elsewhere

On-trade sales

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

Operating profit

Profit from normal trading activities

Revaluation reserve

Accumulated net surpluses arising from the revaluation of assets

Revolving credit facility

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

Share capital

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

Share option

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

Share premium

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

Stocks

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

Subsidiary undertaking

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

Swap

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

Tangible assets

Property, plant and machinery and furniture and equipment owned by the group

Total shareholder return

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

Turnover

Sales to customers, excluding VAT

Yield

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

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

Registrar

The company's registrar is Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA, telephone no. 01903-502541, who will deal with all enquiries regarding your shareholding. Please ensure that you advise them promptly of a change of name or address. The registrar's website address is www.lloydstsb-registrars.co.uk

Dividend Reinvestment Plan

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

Dividend payment by BACS

We can pay your dividends direct to your bank or building society account using the Bankers' Automated Clearing Service (BACS). This means that your dividend will be in your account on the same day we make the payment. Your tax voucher will be posted to your home address. If you would like to use this method of payment please ring Lloyds TSB Registrars on 01903-502541.

Individual saving account (ISA)

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

Low cost share dealing service

Barclays Stockbrokers provide a low cost postal or telephone share dealing service for the company's ordinary shares. Shares can be sold or purchased at a basic rate of 1% commission with a minimum charge of £10. For further information or to receive a copy of the share dealing brochure please ring 0345 777400, calls are charged at local rates.

Share price information

You can check the price of the company's ordinary shares 24 hours a day, 365 days a year by ringing 0839-900281. The calls are charged at 50p per minute at all times.

Capital Gains Tax

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

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

Shareholder benefits

A selection of offers is enclosed with this document for use by shareholders. For further details of the offers please see the terms and conditions with the vouchers.

Financial diary

Ex-dividend date for final dividend	17 May 1999
Record date for final dividend	21 May
Annual General Meeting	29 June
Payment of final dividend	16 July
Financial half year end	28 August
Announcement of half year results	27 October
Ex-dividend date for interim dividend	8 November
Record date for interim dividend	12 November
Payment of interim dividend	10 January 2000
End of 53-week financial year	4 March

WHITBREAD PLC
CHISWELL STREET
LONDON EC1Y 4SD
TEL 0171 606 4455
www.whitbread.co.uk

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