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Whitbread PLC

Interim Report and Accounts 2000/01

future Whitbread

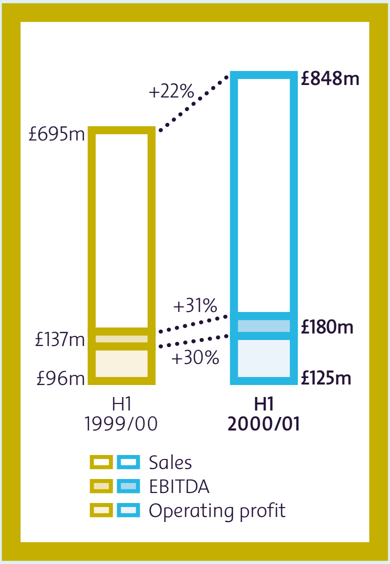
Contents

Financial highlights – six months to 2 September 2000

	future Whitbread Divisions*		Total group	
Sales (including share of joint ventures)	£848m	+22%	£1,766m	–1.9%
EBITDA before exceptional items	£180.0m	+31%	£314.3m	+6.1%
Operating profit before exceptional items	£124.8m	+30%	£231.4m	+5.8%
Profit before exceptional items and tax			£182.1m	–5.9%
Adjusted earnings per share			27.87p	–8.7%
Dividend per share			8.05p	+5.2%

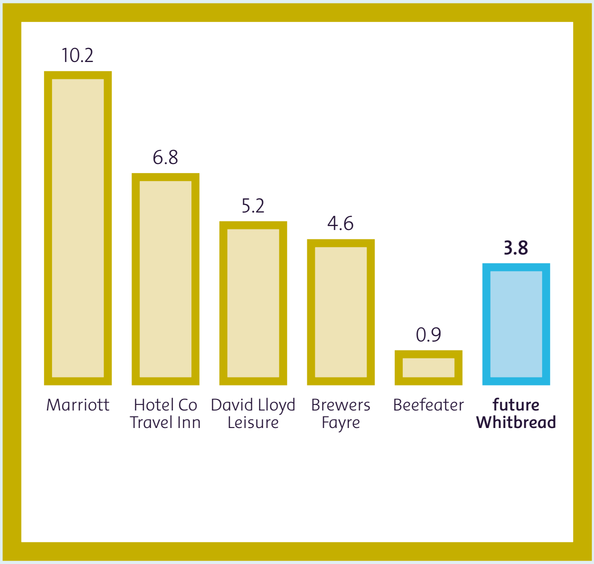
*Divisional results for Hotels, Restaurants and Sports, Health and Fitness.

future Whitbread Divisions*
Financial performance – half year over half year



*Divisional results for Hotels, Restaurants and Sports, Health and Fitness.

Like-for-like sales performance H1 2000/01 (%)
– major brands



Significant strategic developments in 2000

– Swallow acquisition; Beer Company and First Quench disposals; announcement of formation of future Whitbread; proposal to unlock value in Pubs & Bars and return approximately 75% of net proceeds to shareholders;

– Strong like-for-like sales growth in Marriott, Travel Inn, David Lloyd Leisure and Brewers Fayre;

– Outperformance in Pubs & Bars;

– Review of Restaurant brands/Brewsters to grow to 220/Costa Coffee to 500/Beefeater estate to be mainly rebranded; 10% of Restaurant sites to be sold;

– Interim dividend increased.

The synergies between future Whitbread's businesses are key to their performance. Travel Inn guests boost sales in over 200 Whitbread Restaurants. David Lloyd Leisure's specialist expertise will add value to the management of the 48 Marriott and Swallow health clubs. All Whitbread businesses benefit from Restaurants' food expertise as well as shared procurement and logistics.

This announcement demonstrates the significant progress made with the transformation of Whitbread and the attractive growth characteristics underpinning the future shape of the company.

Throughout the 1990s Whitbread has been focusing its activities on growth sectors of the UK leisure market and reducing its dependence on profits from brewing and alcohol-led retailing. The momentum of change has accelerated dramatically in the last twelve months.

In January we completed our largest acquisition, the Swallow Group, and in May the Whitbread Beer Company was sold. These changes are reflected in the accounts for the first half of the financial year which includes less than three months of Beer Company sales and profits.

Notwithstanding the sale of the Beer Company, total earnings before exceptional items, interest, tax, depreciation and amortisation (EBITDA) increased by 6.1% to £314.3 million. Operating profit, before exceptional items, grew by 5.8% to £231.4 million, reflecting an improvement in the group's profit margin from 12.2% to 13.1%.

At a time of considerable change, these are creditable performances and I should like to thank every one of the Whitbread people who made them possible.

On 16 October, we completed the sale of our interest in the First Quench off-licence business and on 19 October, we announced our intention to create future Whitbread and unlock the value of our Pubs & Bars Division – some 3,000 properties – and to return approximately 75% of the net proceeds to shareholders by mid-2001. We have also announced that, in the meantime, we may use our existing authority to buy back shares as part of this return of value.

These results also highlight the quality of our Pubs & Bars division, which has performed well. There have already been numerous expressions of interest from potential purchasers. Even more important, from the point of view of shareholders, is that the divisions that comprise future Whitbread have continued to grow their sales and profits and achieved like-for-like sales growth of 3.8% in the period – a good performance in the current UK retail environment.

Looking forward, this like-for-like sales performance, combined with organic expansion already in the pipeline, gives future Whitbread attractive growth characteristics. For the half-year, the profit margin for the future Whitbread Divisions improved from 13.8% to 14.7%.

Reflecting the Board's confidence, the interim dividend has been increased by 5.2% to 8.05p per share, and will be paid on 9 January 2001 to all shareholders on the register at the close of business on 10 November 2000.

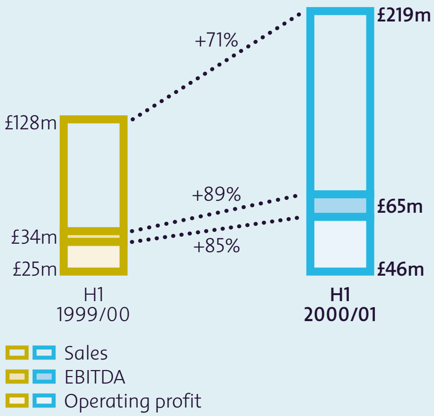
Sir John Banham Chairman

Operating profit and EBITDA (see Finance Review), where referred to in this report, are stated before exceptional items – (see note 3 to the accounts).

Hotels

Sales	**£218.6m**	**+71%**
Like-for-like sales		**+9.8%**
EBITDA	**£65.1m**	**+89%**
Operating profit	**£46.0m**	**+85%**

Whitbread Hotel Company
Financial performance half year over half year



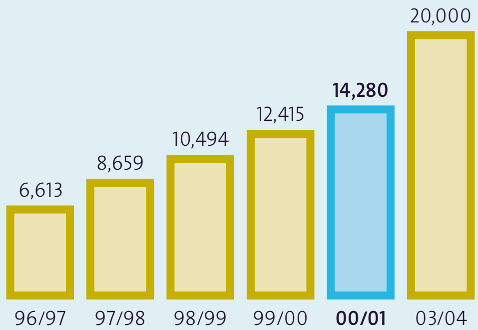
The Whitbread Hotel Company grew like-for-like sales by 9.8% with the Marriott brand ahead 10.2% and the total Travel Inn brand up by 5.4%. Sales and profit growth were helped by the acquisition of the Swallow Group and the continuing rapid expansion of Travel Inn.

On a like-for-like basis the Marriott brand achieved occupancy of 77% while growing achieved room rates by 8% to £81.47 and yield by 7% to £62.73. Marriott continued to achieve a significant yield premium to the market.

The Swallow acquisition is on track to achieve the yield uplift and synergy benefits that were expected. Ten Swallow hotels have already been converted to the Marriott brand.

Travel Inn achieved average occupancy across the group of 87% and (including an estimate of associated food and beverage income) grew its operating profit contribution to Whitbread to around £33 million. The results and net assets of the majority of Travel Inns are currently included within Whitbread Restaurants.

Travel Inn
Rooms growth



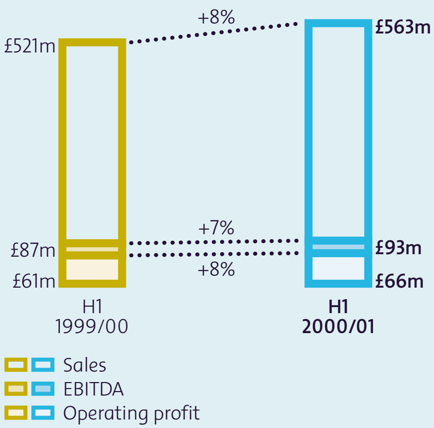
The total hotel operating profit for Whitbread, including the Travel Inns reported under other businesses, grew to approximately £74 million.

Restaurants

Sales	**£563.0m**	**+8.0%**
Like-for-like sales		**+2.2%**
EBITDA	**£93.0m**	**+7.4%**
Operating profit	**£65.7m**	**+8.2%**

Around 90% of operating profit for Whitbread Restaurants is generated by two brands – Brewers Fayre and Beefeater, including their adjacent Travel Inns. Brewers Fayre grew like-for-like sales by 4.6% and Beefeater by 0.9%.

Whitbread Restaurants
Financial performance half year over half year



Like-for-like sales were well ahead in Costa Coffee by 9.4% and Pizza Hut by 5.2% with Whitbread Restaurants Germany also ahead by 1.1%. Like-for-like sales in High Street restaurants, including Café Rouge and Bella Pasta, were down by 0.9% and T.G.I. Friday's down by 6.1%.

Since the new Whitbread Restaurants Division was formed in March, management has undertaken a strategic review to ensure its brands are aligned with growth segments of the eating-out market and to establish rigorous performance criteria. One of the outcomes of this review is that over 140 sites, some 10% of the total, have been identified for disposal, including some 50 High Street sites, mostly from the Café Rouge estate. The review of brands is set out below.

Beefeater occupies 258 of the UK's best restaurant sites, generating average weekly sales of approximately £22,000 per site. We have concluded that we will achieve greater returns by segmenting the estate, creating two new brands: approximately 80 sites will become Out and Out destination restaurants and approximately 90 further sites in prime locations will also be rebranded. The majority of the remaining sites will be rebranded to other concepts or retained as Beefeater where there are good trading reasons for doing so.

Since the beginning of the financial year, the Restaurant Division's new family brand, Brewsters, has now been introduced successfully to 118 Brewers Fayre sites. By 2004 it is intended to grow the Brewsters brand to some 220 while continuing to develop the adult-oriented Brewers Fayre brand.

Costa Coffee is to be expanded rapidly to over 500 sites to take advantage of its brand strength and the fast growing market. Plans for the brand include further strategic alliances such as those with Abbey National and Road Chef.

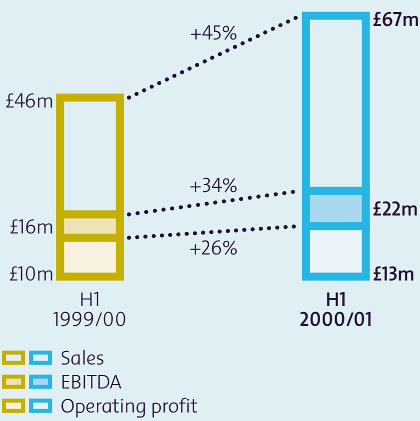
Pizza Hut will continue to grow the distribution of its successful full service restaurants.
To meet the growing demand for home delivery a new strategy of franchising the brand is to be adopted.

In parallel with the disposal of sites, the remaining High Street brands, along with T.G.I. Friday's, will benefit from new initiatives and more focused attention. The early results in Bella Pasta and Café Rouge are encouraging.

Sports, Health and Fitness

Sales	**£66.6m**	**+45%**
Like-for-like sales		**+5.2%**
EBITDA	**£21.9m**	**+34%**
Operating profit	**£13.1m**	**+26%**

Sports, Health and Fitness
Financial performance half year over half year

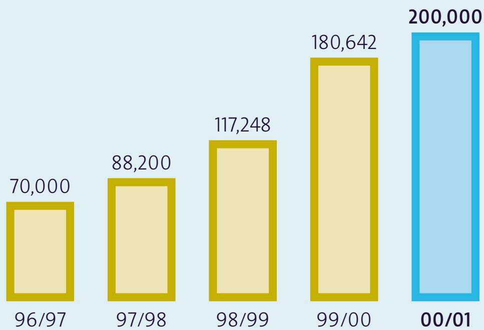


Like-for-like sales growth of over 5% demonstrated the potential for this division. Excluding the recently acquired Racquets and Healthtrack clubs, 18 of the 44 large clubs have been open for less than three years and will contribute to future growth as they approach maturity.

Again excluding Racquets and Healthtrack, total sales grew by 20% with total memberships up by 19%. David Lloyd Leisure's sales per member and membership retention both exceed the industry average.

David Lloyd Leisure is the largest operator in the fast growing active leisure market with more than 200,000 members. Whitbread has grown the brand from 14 clubs since its acquisition in 1995 and intends to continue its expansion through a new club pipeline which already has eight sites and through extending the David Lloyd Leisure franchise to 48 Marriott and Swallow leisure clubs.

Sports, Health and Fitness
Growth in members



Pubs & Bars

Sales	**£341.3m**	**+3.5%**
Like-for-like sales		**+0.0%**
EBITDA	**£104.0m**	**+3.0%**
Operating profit	**£88.0m**	**+2.2%**

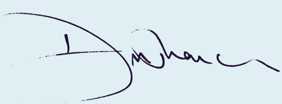
The Pubs & Bars Division was formed in March and comprises Whitbread's leased pubs (Pub Partnerships) and its managed pubs (High Street Bars and Pubs Inn-Line).

Sales in leased pubs were up 2.3% with profit ahead by 7.1% while managed pubs achieved sales growth of 3.8% with a marginal decline in profit. Like-for-like sales in the three main business streams were: High Street bars including Hogshead (+2.7%), Pub Partnerships (+2.3%) and Pubs Inn-Line (–0.6%).

Pub Partnerships' operating profit per pub was up 7%. 72 major capital developments were completed and 56 leases were assigned with average premiums approximating £69,000. Pub Partnerships contributed £39 million to group cash flow.

High Street Bars grew total sales by 23% with Pubs Inn-Line total sales up 0.2%. Average sales per pub grew 3.9%.

Beer and Other Drinks
For Beer, sales were £288.6 million and operating profit was £12.1 million. The Whitbread Beer Company was sold to Interbrew on 25 May 2000 although there remains a continuing beer production and sales activity (see note 2 to the accounts). Other drinks comprises Whitbread's 50% interest in the First Quench off-licence business and a 25% share of Britannia Soft Drinks. Sales for the period were £299.5 million with operating profit of £9.1 million. The sale of First Quench to Nomura was completed on 16 October 2000.



David Thomas Chief Executive

Finance review

Like-for-like sales figures exclude sales of retail outlets opened for the first time or disposed of during 1999/00 or 2000/01.

Accounting policies
FRS 15 (Tangible Fixed Assets) was adopted for the 1999/00 annual accounts. Since FRS 15 was not adopted for the 1999/00 interims, the comparative amounts in these accounts have been restated to comply with this standard. FRS 16 (Current Tax) and UITF 24 (Accounting for start up costs) have been adopted, for the first time, in these accounts. These changes, and their impact, are described in note 1 to the accounts.

Acquisitions and disposals
The results of the period, and year on year comparisons, were impacted significantly by the acquisitions of Racquets and Healthtrack Group (September 1999) and Swallow Group PLC (January 2000) and the disposal of the Whitbread Beer Company (May 2000).

Turnover
Turnover, including joint ventures, fell by 1.9% and group turnover (excluding joint ventures) fell by 2.4%. On a like-for-like basis, group turnover (excluding joint ventures) grew by 2.6%.

It should be noted that under the terms of FRS 9 (Associates and Joint Ventures) there is some double counting, within Turnover including joint ventures, of turnover from Whitbread to joint ventures and vice versa.

Operating profit
Operating profit before exceptional items grew by 5.8% to £231.4 million. The reduced operating profit from Beer reflects the sale of the Whitbread Beer Company. The contribution from other drinks, which comprises the non-core investments in First Quench and Britannia Soft Drinks, also declined. All remaining divisions contributed profit increases, as described in the Operating Review.

The group's profit margin (operating profit before exceptional items as a percentage of turnover including joint ventures) increased from 12.2% to 13.1%. This increase is mainly attributable to the exit from the lower margin beer business and the expansion of the higher margin hotels and sports, health and fitness businesses.

Earnings before exceptional items, interest, tax, depreciation and amortisation ('EBITDA')
We have, for the first time, reported EBITDA by division in the segmental analysis (see note 2 to the accounts). EBITDA is a good indicator of the cash, before working capital movements, net capital expenditure and financing costs, generated by each division. Group EBITDA grew by 6.1% to £314.3 million.

Exceptional items
Further exceptional costs of £3.3 million were charged against operating profit in respect of the reorganisation of Pub Partnerships, Inns and Restaurants into the new Pubs & Bars and Restaurants divisions. In addition, an exceptional charge of £0.9 million was incurred in respect of further restructuring within First Quench.

The loss in the period on the disposal of a business was attributable to the sale of the Whitbread Beer Company. The gross proceeds of the sale were £394 million, which was £53 million above book value but which resulted in a reported loss on sale of £18.8 million. This is as a result of the requirement to account for goodwill previously written off of £72 million.

Interest
The net interest charge increased by £24.0 million to £49.3 million. This was due to the increase in net debt to £1,379 million at the end of the period, versus £897 million at the end of the comparable period. Net interest was covered 4.7 times by operating profit before exceptional items. The weighted average rate of interest on fixed rate sterling debt at the period end was 7.1%. Of the net debt at the period end, 33% was at fixed rates of interest and 67% was at floating rates.

Taxation
As explained in note 1 to the accounts, the tax charge on profit before exceptional items for the interim period has been calculated by applying the forecast effective tax rate for the full year. The charge against profit before exceptional items for the period of £47.7 million represents an underlying rate of 26.2%. The charge, and the underlying tax rate, reflect the recent levels of capital expenditure.

The net tax charge on the exceptional losses includes a charge of £20.2 million relating to the sale of the Whitbread Beer Company. Although this disposal resulted in a book loss of £18.8 million (after goodwill written back), it resulted in a taxable profit. This apparent anomaly arises because the rate of tax relief on fixed assets has been faster than the rate of depreciation used for accounting purposes. Consequently the accounting net book value of the Beer Company was higher than the tax net book value.

Dividend
On 9 January 2001, the interim dividend of 8.05p per share, an increase of 5.2%, will be paid to all shareholders on the register at the close of business on 10 November 2000. A dividend re-investment alternative will be offered.

Cash flow
Net cash inflow from operating activities was £102 million lower for the period at £181 million. This reduction results primarily from a year over year increase of £95 million in debtors. The principal reasons for this increase are: a VAT debtor of £37 million (in respect of the sale of the Whitbread Beer Company), which was settled in September; and the rise in debtors within the Whitbread Beer Company, during our period of ownership in this half year, compared with the movement in the comparative half year.

Investment in property and plant was £170 million, down from £194 million last year. This reduced level of investment reflects principally the sale of the Whitbread Beer Company and a lower level of expenditure in the first half within David Lloyd Leisure. The increase of £119 million in receipts from property and plant sold reflects the proceeds from the sale of the Swallow Inns and Restaurants business. Consequently, the net cash outflow from capital expenditure was £38 million, compared with £189 million in the corresponding period.

Cash inflow before financing was £337 million. The underlying cash inflow for the period (after adjusting for the £378 million cash inflow from the acquisition and disposal of businesses and for an outflow in respect of investment in new retail outlets of £67 million) was £26 million.

Net debt
Net debt at the end of the period amounted to £1,379 million, resulting in a balance sheet gearing ratio of 52%.

Net asset value
Net asset value per share at the period end was £5.36, an increase of 0.25 pence/5.0% over the period.

Post balance sheet events
Two significant events were announced in October:

i. the completion of the sale of First Quench; and

ii. a proposed restructuring of Whitbread which will result in the formation of 'future Whitbread' (comprising our hotel, restaurant and leisure club businesses), the unlocking of the full value of the pubs which comprise the Pubs & Bars division and the subsequent return of value to shareholders.

These transactions are described earlier in this report and in note 12 to the accounts.

Supplementary information
1999/00 financial information for the new divisional format, information on capital expenditure and site numbers at the half year end are available on the Whitbread website at www.whitbread.co.uk

Group profit and loss account
Six months to 2 September 2000

Notes		6 months to 2.9.2000 Before exceptional items £m	6 months to 2.9.2000 Exceptional items (note 3) £m	6 months to 2.9.2000 Total £m	6 months to 28.8.1999 (restated) Before exceptional items £m	6 months to 28.8.1999 (restated) After exceptional items £m	1999/2000 (restated) After exceptional items £m
	Turnover – continuing operations						
	Group and share of joint ventures	**1,765.6**	**–**	**1,765.6**	1,798.9	1,798.9	3,738.9
	Less share of joint ventures' turnover	**(360.6)**	**–**	**(360.6)**	(359.0)	(359.0)	(787.5)
2	Group turnover	**1,405.0**	**–**	**1,405.0**	1,439.9	1,439.9	2,951.4
	Group operating profit – continuing operations	**219.4**	**(3.3)**	**216.1**	204.9	197.3	345.2
	Share of operating profit in:						
	Joint ventures	**3.0**	**(0.9)**	**2.1**	4.4	4.4	(24.5)
	Associates	**9.0**	**–**	**9.0**	9.5	9.5	12.3
2	Operating profit of the group, joint ventures and associates	**231.4**	**(4.2)**	**227.2**	218.8	211.2	333.0
	Non-operating items – continuing operations						
	Net profit/(loss) on disposal of fixed assets						
	Group excluding joint ventures and associates	**–**	**2.3**	**2.3**	–	1.3	5.4
	Joint ventures	**–**	**0.4**	**0.4**	–	–	(0.1)
	Associates	**–**	**0.1**	**0.1**	–	(0.1)	–
9	Loss on the disposal of businesses	**–**	**(18.8)**	**(18.8)**	–	(1.6)	(1.8)
	Share of joint ventures' fundamental restructuring costs	**–**	**–**	**–**	–	(7.1)	(17.4)
	Profit before interest	**231.4**	**(20.2)**	**211.2**	218.8	203.7	319.1
4	Interest	**(49.3)**	**–**	**(49.3)**	(25.3)	(25.3)	(63.1)
	Profit before taxation	**182.1**	**(20.2)**	**161.9**	193.5	178.4	256.0
5	Taxation	**(47.7)**	**(19.2)**	**(66.9)**	(42.5)	(40.5)	(75.4)
	Profit after taxation	**134.4**	**(39.4)**	**95.0**	151.0	137.9	180.6
	Equity minority interests	**(0.1)**	**–**	**(0.1)**	(0.1)	(0.1)	(0.2)
	Preference dividends	**–**	**–**	**–**	(0.3)	(0.3)	(0.3)
	Profit earned for ordinary shareholders	**134.3**	**(39.4)**	**94.9**	150.6	137.5	180.1
	Ordinary dividend	**(40.1)**	**–**	**(40.1)**	(38.0)	(38.0)	(146.5)
	Retained profit for the year	**94.2**	**(39.4)**	**54.8**	112.6	99.5	33.6
	Dividends per share (pence)						
	Interim			**8.05**		7.65	7.65
	Final						21.85
6	**Earnings per share (pence)**						
	Basic			**19.11**		27.79	36.36
	Adjusted basic	**27.87**			30.52		54.22
	Diluted			**19.09**		27.52	36.26
	Adjusted diluted	**27.85**			30.22		54.08

Statement of total recognised gains and losses
Six months to 2 September 2000

	6 months to 2.9.2000 £m	6 months to 28.8.1999 (restated) £m	1999/2000 (restated) £m
Profit earned for ordinary shareholders			
Group excluding joint ventures and associates	**88.1**	133.9	219.4
Joint ventures	**1.1**	(2.3)	(46.6)
Associates	**5.7**	5.9	7.3
Group including joint ventures and associates	**94.9**	137.5	180.1
Prior year adjustments for depreciation arising from the introduction of FRS 15	**–**	(141.3)	(141.3)
Prior year adjustments for the introduction of UITF 24	**(5.4)**	–	–
Premium on cancellation of preference stocks	**–**	(0.2)	(0.2)
	89.5	(4.0)	38.6
Currency translation differences on net foreign investment	**(0.2)**	1.4	3.0
Total gains and losses recognised since previous year end	**89.3**	(2.6)	41.6

Cash flow statement
Six months to 2 September 2000

Notes		6 months to 2.9.2000 £m		6 months to 28.8.1999 (restated) £m		1999/2000 (restated) £m	
7	**Cash flow from operating activities**		**181.3**		283.5		559.0
	Dividends received from joint ventures and associates		**–**		–		1.7
	Returns on investments and servicing of finance						
	Interest received	**0.9**		6.1		7.2	
	Interest paid	**(51.0)**		(32.8)		(86.2)	
	Other dividends received	**–**		0.1		0.1	
	Loan interest received	**0.7**		1.1		1.8	
	Preference dividends paid	**(0.1)**		(0.4)		(0.3)	
	Net cash outflow from returns on investments and servicing of finance		**(49.5)**		(25.9)		(77.4)
	Taxation						
	UK Corporation Tax paid		**(25.9)**		(8.6)		(52.8)
	Capital expenditure and financial investment						
	Property and plant purchased	**(170.5)**		(193.7)		(372.3)	
	Investments purchased and loans advanced	**(6.2)**		(5.6)		(12.2)	
	Property and plant sold	**122.8**		4.1		16.9	
	Investments sold and loans realised	**15.4**		6.3		22.9	
	Net cash outflow from capital expenditure and financial investment		**(38.5)**		(188.9)		(344.7)
	Acquisitions and disposals						
8	New businesses acquired	**(11.3)**		(0.1)		(632.4)	
9	Businesses sold	**389.0**		11.3		11.3	
	Net cash inflow/(outflow) from acquisitions and disposals		**377.7**		11.2		(621.1)
	Equity dividends paid		**(108.5)**		(101.4)		(139.3)
	Net cash inflow/(outflow) before use of liquid resources and financing		**336.6**		(30.1)		(674.6)
	Management of liquid resources						
10	Net movement on short term securities and bank deposits		**0.1**		0.7		0.2
	Financing						
	Issue of shares	**1.1**		7.2		10.9	
	Repayment of preference stock	**–**		(10.0)		(10.0)	
10	Net movement on short term bank borrowings	**(19.6)**		21.5		2.0	
10	Loan capital issued	**310.0**		62.1		1,070.2	
10	Loan capital repaid	**(651.4)**		(10.2)		(368.3)	
	Net cash inflow/(outflow) from financing		**(359.9)**		70.6		704.8
10	**Increase/(decrease) in cash**		**(23.2)**		41.2		30.4

Balance sheet
2 September 2000

Notes		2.9.2000 £m	28.8.1999 (restated) £m	4.3.2000 (restated) £m
	Fixed assets			
	Intangible assets	**157.9**	8.3	157.7
	Tangible assets	**4,032.0**	3,613.5	4,254.3
	Investments			
	In joint ventures			
	Share of gross assets	**236.3**	292.9	235.3
	Share of gross liabilities	**(120.1)**	(124.2)	(108.6)
		116.2	168.7	126.7
	In associates	**55.8**	50.2	50.0
	Other investments	**2.9**	25.4	25.2
		4,364.8	3,866.1	4,613.9
	Current assets and liabilities			
	Stocks	**32.8**	67.3	64.9
	Debtors	**242.8**	260.6	345.6
	Cash at bank and in hand	**160.6**	69.3	123.1
		436.2	397.2	533.6
	Creditors – amounts falling due within one year	**(781.5)**	(807.1)	(1,453.4)
	Net current liabilities	**(345.3)**	(409.9)	(919.8)
	Total assets less current liabilities	**4,019.5**	3,456.2	3,694.1
	Creditors – amounts falling due after more than one year			
	Loan capital	**(1,310.2)**	(841.8)	(1,120.2)
	Provisions for liabilities and charges	**(35.8)**	(14.7)	(31.9)
		2,673.5	2,599.7	2,542.0
	Capital and reserves			
	Called up share capital	**124.4**	124.0	124.2
	Share premium account	**201.8**	193.0	196.6
	Revaluation reserve	**622.2**	668.5	669.1
	Other reserves – non-distributable	**(13.7)**	24.6	(20.5)
	Profit and loss account	**1,733.4**	1,587.4	1,567.3
11	**Equity shareholders' funds**	**2,668.1**	2,597.5	2,536.7
	Equity minority interests	**2.3**	2.2	2.2
	Non-equity minority interests	**3.1**	–	3.1
		2,673.5	2,599.7	2,542.0

1 Basis of preparation of accounts

The interim accounts, which were approved by the board on 30 October 2000 and are abridged, have been prepared on the basis of the accounting policies set out in the 1999/2000 group accounts. The tax charge on profit before exceptional items for the interim period has been calculated by applying the forecast effective tax rate for the full year.

The balance sheet as at 4 March 2000 and the profit and loss account and cash flow statement for the year ended on that date are extracts from the statutory accounts which have been delivered to the Registrar of Companies. The auditors' report on the statutory accounts was unqualified and did not contain a statement under section 237 of the Companies Act 1985. Abstract number 24 of the Urgent Issues Task Force, Accounting for start-up costs (UITF 24), requires that start-up costs should be written off as incurred, instead of being amortised over a short period after the opening of an outlet. UITF 24 has been implemented and its effect on the balance sheet can be seen in note 11. The effect on the segmental analysis and operating profit is disclosed below.

The 1999/2000 accounts complied with the requirements of FRS 15 (Tangible Fixed Assets) and FRS 16 (Current Tax), neither of which were implemented in the interim accounts for that year. The comparative amounts for the six months to 28 August 1999 have therefore been restated to comply with the new standards. The effects of the changes caused by FRS 15 and FRS 16 are disclosed below.

	6 months to 2.9.2000			6 months to 28.8.1999		
	FRS 15	**UITF 24**	**Total**	FRS 15	UITF 24	Total
Impact of FRS 15 and UITF 24 on operating profit						
Hotels	**(4.9)**	**0.5**	**(4.4)**	(2.5)	0.3	(2.2)
Restaurants	**(9.5)**	**0.1**	**(9.4)**	(8.6)	0.2	(8.4)
Sports, health and fitness	**(4.2)**	**0.2**	**(4.0)**	(2.7)	(0.1)	(2.8)
	(18.6)	**0.8**	**(17.8)**	(13.8)	0.4	(13.4)
Pubs & Bars – leased	**(1.6)**	**–**	**(1.6)**	(1.6)	–	(1.6)
– managed	**(5.8)**	**(0.3)**	**(6.1)**	(4.9)	–	(4.9)
Beer	**–**	**–**	**–**	–	–	–
Other drinks	**(0.2)**	**–**	**(0.2)**	(0.2)	–	(0.2)
Central services	**–**	**–**	**–**	–	–	–
Net increase/(decrease) in profit	**(26.2)**	**0.5**	**(25.7)**	(20.5)	0.4	(20.1)

	2.9.2000			28.8.1999		
	FRS 15	**UITF 24**	**Total**	FRS 15	UITF 24	Total
Impact of FRS 15 and UITF 24 on net assets						
Hotels	**(26.2)**	**(3.0)**	**(29.2)**	(21.3)	(3.5)	(24.8)
Restaurants	**(43.7)**	**(0.9)**	**(44.6)**	(34.2)	(1.0)	(35.2)
Sports, health and fitness	**(18.1)**	**(0.7)**	**(18.8)**	(13.9)	(0.9)	(14.8)
	(88.0)	**(4.6)**	**(92.6)**	(69.4)	(5.4)	(74.8)
Pubs & Bars – leased	**(27.0)**	**–**	**(27.0)**	(25.4)	–	(25.4)
– managed	**(68.9)**	**(0.3)**	**(69.2)**	(63.1)	–	(63.1)
Beer	**–**	**–**	**–**	(3.1)	–	(3.1)
Other drinks	**(0.4)**	**–**	**(0.4)**	(0.2)	–	(0.2)
Central services	**(0.6)**	**–**	**(0.6)**	(0.6)	–	(0.6)
Net increase/(decrease) in net assets	**(184.9)**	**(4.9)**	**(189.8)**	(161.8)	(5.4)	(167.2)

The implementation of FRS 16 has resulted in a reduction in the tax charge and an increase in profit after tax of £nil (1999 – £0.4m).

2 Segmental analysis

Six months to 2 September 2000	Turnover £m	EBITDA† £m	Operating profit £m	Net assets £m
By business segment				
Hotels	218.6	65.1	46.0	1,227.0
Restaurants	563.0	93.0	65.7	1,255.0
Sports, health and fitness	66.6	21.9	13.1	418.6
	848.2	180.0	124.8	2,900.6
Pubs & Bars – leased	74.8	38.1	36.4	387.4
– managed	266.5	65.9	51.6	781.8
Beer	288.6	20.7	12.1	0.5
Other drinks	299.5	9.1	9.1	124.0
Acquired businesses for disposal#	16.1	2.6	2.6	9.7
	1,793.7	316.4	236.6	4,204.0
Inter-segment turnover (see note below)	(63.7)			
Share of joint ventures' turnover	(360.6)			
Central services	35.6	(2.1)	(5.2)	(151.5)
Exceptional items (note 3)		(4.2)	(4.2)	
	1,405.0	310.1	227.2	4,052.5
By geographical segment				
United Kingdom	1,371.5	307.5	226.3	4,033.1
Rest of the world	33.5	2.6	0.9	19.4
	1,405.0	310.1	227.2	4,052.5

2 Segmental analysis (continued)

Six months to 28 August 1999	Turnover £m	EBITDA† £m	Operating profit £m	Net assets £m
By business segment				
Hotels	127.6	34.5	24.8	558.9
Restaurants	521.2	86.6	60.7	1,181.9
Sports, health and fitness	46.0	16.3	10.4	295.2
	694.8	137.4	95.9	2,036.0
Pubs & Bars – leased	73.1	35.8	34.0	387.0
– managed	256.7	65.2	52.1	767.0
Beer	559.2	47.5	30.7	309.2
Other drinks	302.3	13.3	12.9	182.1
	1,886.1	299.2	225.6	3,681.3
Inter-segment turnover (see note below)	(120.5)			
Share of joint ventures' turnover	(359.0)			
Central services	33.3	(2.9)	(6.8)	(184.6)
Exceptional items (note 3)		(7.6)	(7.6)	
	1,439.9	288.7	211.2	3,496.7
By geographical segment				
United Kingdom	1,406.4	284.9	209.2	3,474.4
Rest of the world	33.5	3.8	2.0	22.3
	1,439.9	288.7	211.2	3,496.7

†EBITDA is earnings before interest, tax, depreciation and amortisation.
#Acquired businesses for disposal relates mainly to the pubs business acquired with Swallow Group plc.

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 within the divisions that operate them, not within Hotels. The results and net assets of the Marriott and Swallow leisure clubs are included within Hotels. Net assets included above are total net assets excluding net debt.

Following the sale of the Whitbread Beer Company there remains a continuing activity within the Beer segment. This is as a result of the terms of the sale of the Whitbread Beer Company to Interbrew which included arrangements for Whitbread to retain the people and the necessary production capacity to ensure compliance with its obligations for the remaining period of the Heineken and Murphy licences.

The segments have been changed to reflect the new divisional structure of the group.

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 £74.6m (1999 – £111.4m) and sales to the group from joint ventures amounting to £6.0m (1999 – nil).

2 Segmental analysis (continued)

	6 months to 2.9.2000 £m	6 months to 28.8.1999 £m
The exceptional costs are detailed in note 3. The analysis is as follows:		
Pubs & Bars and Restaurants	**(2.9)#**	–
Other drinks	**(0.9)**	–
Central services	**(0.4)**	(7.6)
	(4.2)	(7.6)

#These costs relate to the restructuring of these businesses into the new divisions of Pubs and Bars and Restaurants. This was a combined project and there was no suitable basis for allocating the costs to individual divisions.

3 Exceptional items

	6 months to 2.9.2000 £m	6 months to 28.8.1999 £m	1999/2000 £m
Restructuring/rationalisation costs	**(3.3)**	–	(14.4)
Impairment of leasehold properties	**–**	–	(7.2)
Integration costs	**–**	–	(15.0)
Abortive acquisition costs	**–**	(7.6)	(7.7)
Group excluding joint ventures and associates	**(3.3)**	(7.6)	(44.3)
Share of joint ventures' restructuring costs	**(0.9)**	–	–
Impairment of investment in First Quench	**–**	–	(34.2)
Charged against operating profit	**(4.2)**	(7.6)	(78.5)
Non-operating items			
Net profit on disposal of fixed assets			
Group excluding joint ventures and associates	**2.3**	1.3	5.4
Joint ventures	**0.4**	–	(0.1)
Associates	**0.1**	(0.1)	–
Loss on the disposal of businesses (note 9)	**(18.8)**	(1.6)	(1.8)
Share of First Quench's fundamental restructuring costs	**–**	(7.1)	(17.4)
	(20.2)	(15.1)	(92.4)

The restructuring/rationalisation costs relate mainly to the reorganisation of Pub Partnerships, Inns and Restaurants into the new Pubs & Bars and Restaurants divisions. The integration costs relate to the acquisition of the Swallow Group plc. Abortive acquisition costs relate to the lapsed Allied Domecq Retailing offer.

4 Interest

	6 months to 2.9.2000 £m	6 months to 28.8.1999 £m	1999/2000 £m
Interest payable	**50.0**	33.9	73.4
Interest receivable	**(1.3)**	(7.1)	(8.8)
Interest capitalised	**(1.7)**	(3.4)	(5.4)
	47.0	23.4	59.2
Interest payable by:			
Joint ventures	**1.1**	0.6	1.9
Associates	**1.2**	1.3	2.0
	49.3	25.3	63.1

5 Taxation

	6 months to 2.9.2000 £m	6 months to 28.8.1999 £m	1999/2000 £m
Current taxation on profits before exceptional items			
UK Corporation Tax at 30% (1999 – 30.08%)	**47.6**	39.2	88.7
Deferred tax	**–**	–	(8.0)
Overseas tax	**0.4**	0.1	0.4
	48.0	39.3	81.1
Adjustments to earlier periods			
Corporation Tax	**(2.8)**	–	(4.6)
	45.2	39.3	76.5
Joint ventures	**0.3**	1.0	1.6
Associates	**2.2**	2.2	3.0
	47.7	42.5	81.1
Tax on exceptional items			
Group	**19.2**	–	(6.8)
Joint ventures	**–**	(2.0)	1.1
	66.9	40.5	75.4

6 Earnings per share

Basic earnings per share is calculated by dividing earnings for ordinary shareholders of £94.9m (1999 – £ 137.5m) by the weighted average number of ordinary shares in issue during the year, 496.6m (1999 – 494.8m). Adjusted basic earnings per share is calculated as follows:

	Earnings (£m)			Earnings per share (p)		
	6 months to 2.9.2000	6 months to 28.8.1999 (restated)	1999/2000 (restated)	**6 months to 2.9.2000**	6 months to 28.8.1999 (restated)	1999/2000 (restated)
Earnings and basic earnings per share	**94.9**	137.5	180.1	**19.11**	27.79	36.36
Earnings and basic earnings per share attributable to:						
Goodwill amortisation	**4.1**	0.4	1.8	**0.83**	0.08	0.36
Exceptional items, net of tax	**39.4**	13.1	86.7	**7.93**	2.65	17.50
Adjusted earnings and basic earnings per share	**138.4**	151.0	268.6	**27.87**	30.52	54.22

Earnings includes a number of exceptional items. In order to demonstrate the effect of these, together with the impact of goodwill amortisation, an adjusted earnings per share figure is also presented. 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 497.0m (1999 – 499.6m).

7 Net cash inflow from operating activities

	2000 £m	1999 (restated) £m	1999/2000 (restated) £m
Group operating profit	**216.1**	197.3	345.2
Investment income	**(0.1)**	(0.2)	(0.3)
Depreciation/amortisation	**82.9**	77.1	161.8
Impairment of leasehold properties	**–**	–	7.2
Movement on provisions	**(8.1)**	–	17.7
Other non-cash items	**2.1**	2.4	17.9
(Increase)/decrease in stocks	**(9.4)**	(2.6)	3.2
Increase in debtors	**(171.6)**	(76.1)	(4.0)
Increase in creditors	**69.4**	85.6	10.3
Cash flow from operating activities	**181.3**	283.5	559.0

8 Acquisitions

	6 months to 2.9.2000 £m	6 months to 28.8.1999 £m	1999/2000 £m
Cash outflow in respect of new businesses acquired			
Cost of acquisitions	**–**	–	687.4
Deferred consideration	**–**	–	(11.7)
Payments in respect of previous years' acquisitions	**11.3**	0.1	0.1
Swallow dividend paid to Swallow shareholders	**–**	–	9.2
Loan stock issued as consideration	**–**	–	(26.1)
Cash and overdrafts of businesses acquired	**–**	–	(26.5)
Cash outflow	**11.3**	0.1	632.4

9 Disposals

The following relates to the disposal of the Whitbread Beer Company on 25 May 2000.

	6 months to 2.9.2000 £m
Intangible fixed assets	**7.9**
Tangible fixed assets	**305.9**
Investments	**24.1**
Net working capital, excluding cash and overdraft	**(5.3)**
Carrying value of net assets	**332.6**
Gross sale proceeds	**394.2**
Less costs	**(8.9)**
Net sale proceeds	**385.3**
Profit before goodwill write back	**52.7**
Less goodwill written back	**(71.5)**
Loss on disposal	**(18.8)**
Net sale proceeds	**385.3**
Accrued costs	**3.7**
Cash inflow	**389.0**

10 Reconciliation of net cash flow to movement in net debt

	6 months to 2.9.2000 £m	6 months to 28.8.1999 £m	1999/2000 £m
Increase/(decrease) in cash in the period	**(23.2)**	41.2	30.4
Cash (inflow)/outflow from movement in loan capital	**341.4**	(51.9)	(701.9)
Cash inflow from movement in liquid resources	**(0.1)**	(0.7)	(0.2)
Cash (inflow)/outflow from movement in short-term borrowings	**19.6**	(21.5)	(2.0)
Changes in net debt resulting from cash flows	**337.7**	(32.9)	(673.7)
Loan capital issued in connection with acquisitions	**–**	–	(26.1)
Loan capital acquired with acquisitions	**–**	–	(172.7)
Foreign exchange movements	**(1.2)**	2.5	4.7
Amortisation of premiums and discounts	**5.7**	1.7	14.9
Movement in net debt in the period	**342.2**	(28.7)	(852.9)
Opening net debt	**(1,721.2)**	(868.3)	(868.3)
Closing net debt	**(1,379.0)**	(897.0)	(1,721.2)

11 Shareholders' funds

	2.9.2000 £m	28.8.1999 £m	4.3.2000 £m
Movements in equity shareholders' funds			
Opening equity shareholders' funds	**2,536.7**	2,634.5	2,634.5
Adjust for start-up costs in accordance with UITF 24 (note 1)	**–**	(5.8)	(5.8)
Adjust comparative periods for the implementation of FRS 15	**–**	(141.3)	(141.3)
Comparative shareholders' funds – restated	**2,536.7**	2,487.4	2,487.4
Profit earned for ordinary shareholders	**94.9**	137.5	180.1
Dividends	**(40.1)**	(38.0)	(146.5)
	54.8	99.5	33.6
Other recognised gains and losses relating to the period	**(0.2)**	1.4	3.0
Goodwill on disposal	**71.5**	8.0	8.1
Other reserve movements	**–**	–	(0.3)
Share capital issued	**5.3**	11.2	14.9
Cancellation of preference stock	**–**	(10.0)	(10.0)
Closing equity shareholders' funds	**2,668.1**	2,597.5	2,536.7

12 Post balance sheet events

First Quench

On 16 October 2000 Whitbread PLC and Punch Group Limited completed the sale of First Quench Retailing Limited to Carmelite Acquisitions Limited, a company formed and financed by the Principal Finance Group of Nomura International plc. The initial payment was approximately £225m, of which 50% was payable to Whitbread. The final consideration will depend on the net asset position which will be shown in the completion accounts.

Whitbread to restructure, tighten focus and return value to shareholders

On 19 October 2000 the Board announced that it is to implement a radical restructuring and focusing of the Whitbread Group. The effect of this restructuring will be:

– the formation of 'future Whitbread', comprising Whitbread's hotel, restaurant and leisure club businesses;

– the unlocking of the full value in the 3,000 pubs which comprise the Pubs and Bars division; and

– a substantial return of value to shareholders.

Full shareholder value will be unlocked from Pubs and Bars through one or more transactions. The Board intends that approximately 75% of the net proceeds will be returned to shareholders whilst ensuring that future Whitbread has the financial flexibility to invest for organic growth. The return of value to shareholders is expected to be substantially complete by mid-2001. In the meantime, Whitbread may utilise its existing authority to buy back shares as part of the mechanism for returning value to shareholders.

Introduction

We have been instructed by the company to review the financial information set out on pages 10 to 21 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The Listing Rules of the Financial Services Authority require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 2 September 2000.

Ernst & Young
London
2000

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

Registrar

The company's registrar is Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA. Their website address is www.lloydstsb-registrars.co.uk For enquiries regarding your shareholding please telephone 0870 6003968. You can also view up-to-date information about your holdings by visiting the shareholder website at www.shareview.co.uk Please ensure that you advise Lloyds TSB promptly of a change of name or address.

Financial diary

Financial half year end	2 September
Announcement of half year results	31 October
Ex-dividend date for interim dividend	6 November
Record date for interim dividend	10 November
Payment of interim dividend	9 January 2001
End of financial year	3 March