

Annual Report and
Accounts 2009/10

EAT SLEEP & DRINK
WHITBREAD

The Whitbread Way Forward

Our aim is to build the best large-scale hospitality brands in the world by becoming the most customer focused organisation there is. Anywhere.

We'll do this by providing outstanding value and making everyday experiences feel special – so that our customers come back time and time again.

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Business review – our strategy

Our clear strategy underpins our aim of building the best large-scale hospitality brands in the world by becoming the most customer-focused organisation there is.

Our strategy has remained very clear and constant – to increase our leadership position in the hotels, restaurants and coffee shop markets in the UK and to become number one or two in our chosen overseas markets.

The scale of the growth of our hotels since 2003/04 from 18,000 rooms to over 42,000 rooms (136%) demonstrates our commitment to this strategy. This is mirrored in the growth of Costa from 346 stores to 1,600 (362%) in the same period. This is supported by our financial strength and the skills of our development and operating teams.

We have continued to grow in the last two years, despite the more difficult economic conditions. We took the decision to reduce the number of hotel rooms being opened during the last year while we assessed the length and depth of the recession and its effect on the business. In the meantime we have been buying land ready for future development and we have a secured pipeline of 10,000 rooms.

There is still room for significant growth in the UK for our hotels business with our current target of 55,000 Premier Inn rooms. This is supported by the projected growth in the total hotels market and our view of the potential of the budget hotel sector within that market. We have detailed analysis

of every town in the UK which looks at the population in the area and the suitability for our brands. This analysis has also been carried out for our restaurants and coffee shops.

We have assessed overseas markets both for our ability to win, together with their growth prospects, and developed clear plans to work in those markets at the appropriate time.

In terms of the overseas development of our hotels, we will continue to concentrate on the Middle East and India in order to demonstrate the commercial and economic model and create value in those territories.

We are more advanced in coffee shops where Costa is already represented in 24 overseas countries. Costa's international growth has been augmented by the Coffeeheaven acquisition in Central Europe.

Next year we plan to continue with our disciplined growth with 29 new hotels (2,500 rooms) and ten new pub restaurants. In Costa we plan to open 130 new stores in the UK and 120 overseas.

We continue to believe that our property ownership should be predominantly on a freehold basis, although it is possible that we may selectively use our property as an alternative source of funding for our pipeline of developments.

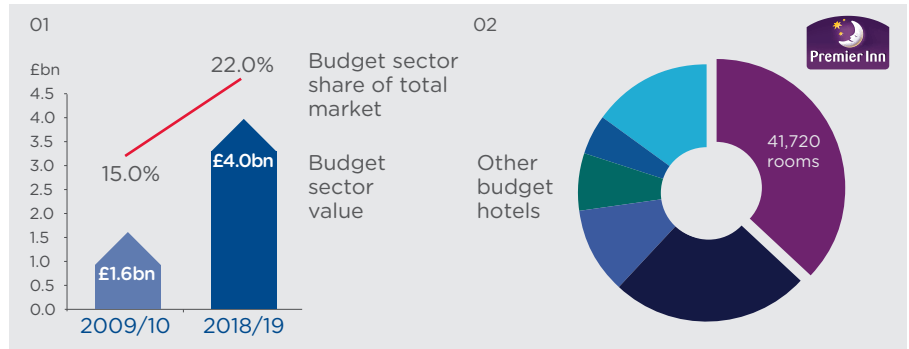
At present 84% of our Hotels and Restaurants estate is freehold, although this mix is changing as many of the new sites we have acquired are leasehold. During the year we undertook a small sale and leaseback of five properties which was very successful both in terms of investor interest and the price achieved (an initial yield of around 5.5%).

We believe that a key part of building and maintaining our leadership position, as well as the trust and loyalty of our customers, is corporate responsibility. For this reason we launched our Good Together programme in 2009. To learn more about this initiative please visit our Good Together Report at <http://cr.whitbread.co.uk>.

There is still room for significant growth in the UK. Our target is to grow Premier Inn by 32% to 55,000 rooms in the UK by 2014/15.

01 UK budget hotel sector: Strong long-term prospects with projected CAGR of circa 10% over the next 10 years

02 The UK budget hotel sector today:
 • 111,700 rooms
 • four brands account for 80% of rooms



Source: OC&C Strategy Consultants

Source: TRI

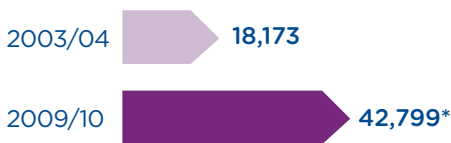
In 2009/10 we highlighted three clear priorities in response to the turbulent economic conditions.

2009/10 strategic priorities	Action	Result
Outperform market	Developing detailed action plans to focus on our customers' needs, and particularly on establishing our value for money credentials.	All our businesses have outperformed in their markets.
Reduce operating costs	Streamlining management, improving the efficiency of back office processes and delivering a series of procurement initiatives.	On track to achieve £25 million of annual savings, with £20 million realised to date.
Achieve cash flow neutrality	Prioritising cash management and working capital together with the sale and leaseback of five properties.	Positive cash flow for the year of £109.7 million, with net debt reducing to £513.4 million.

Growth transformation over six years



Rooms



Rooms – Growth 136%

* Including 1,079 international rooms



Stores



Stores – Growth 362%

* Including 531 international stores

Business review - corporate responsibility

Whitbread has always put a high value on being a responsible business. Good Together is our way of uniting the power of our people, customers and suppliers.

GOOD TOGETHER

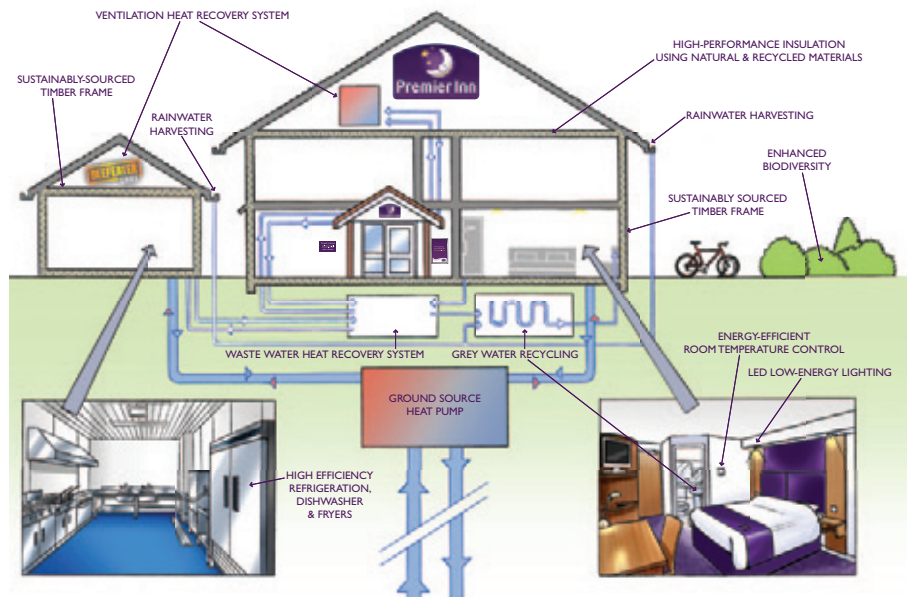
In January 2010, Whitbread launched Good Together, an umbrella programme to improve sustainable performance and corporate responsibility.

Customer research tells us that our customers really care about environmental and social issues even in these times of recession. On average, 65% of respondents across all our brands rated the issues as important. We recognise that we are at the start of an exciting journey and our ambition is to lead the hospitality sector in providing our customers with outstanding green products and services, without a significant price premium attached.

Good Together strategy

We have focused our efforts on six important streams of activity, setting targets for achievement and behavioural change in each. These themes were identified by our customers, our teams and from market research as those that are most material to our business. They are: environment; employee engagement; sourcing of products and services; customer engagement; health; and community. Delivering against these six areas is an important part of Whitbread's strategy.

We believe that Good Together is important in making Whitbread a business in which people will want to work, investors will want to invest and customers will be proud to visit and come back to again and again.



We will be opening our first purpose-built joint 'green hotel and restaurant' site at Burgess Hill, West Sussex in autumn 2010.



Jodie Slater, Manager of Costa in Sutton Coldfield, experienced a life-changing trip with the Costa Foundation. Jodie opened La Esperanza School in Colombia



COSTA FOUNDATION



Targets

We have set important initial targets as follows:

- Reduce CO₂ emissions from our operations by 26% by 2020;
- Achieve 80% of waste diverted from landfill from Whitbread Hotels and Restaurants sites by February 2012;
- 100% of all Costa coffee production to be Rainforest Alliance certified by June 2010;
- Launch a purpose-built 'green hotel and restaurant' at Burgess Hill, West Sussex (to open in autumn 2010) – as shown in the diagram on page 30;
- Achieve 3,000 qualifications from the Hotels and Restaurants apprenticeship scheme and train four hundred Costa learners by the end of 2011;
- Raise £1 million for WaterAid over two years; and
- Enable 15,000 children to be educated as part of the Costa Foundation.

An integrated programme

We are working to embed sustainability into everything we do to build even stronger brands, inspire and motivate our team members, delight our customers and ultimately make our business better prepared to deliver continued value to our shareholders. We know that, in an international organisation of over 33,000 people, this is a cultural and behavioural transition that will take time, but we have already taken some important steps forward.

Communication and engagement

In October 2009, we started to communicate Good Together. Key elements of our communications plan included newsletters, intranet micro-site, line managers' support packs and a Good Together launch week of activity during which team members made personal pledges.

Driving and measuring performance

We have included a fourth stakeholder, called Good Together, on the WINcard. Now we measure and reward our people based partly on our success in reducing energy consumption.

WaterAid partnership

For team members one of the key motivators is their desire to raise money for both local and national charities. As a hospitality business we use a lot of water. We wanted to give back to those communities that go without the most basic requirements of life – safe water and sanitation. In June 2009 we joined forces with globally recognised charity, WaterAid.

Costa Foundation

In 2006, we launched the Costa Foundation. This was the beginning of our journey in helping the coffee-growers by raising money to build schools in their communities.

Developing carbon and water efficient buildings

We will deliver carbon efficiency by incorporating retrofit measures across our estate and by opening new sustainable properties. In 2008, we built our first carbon and water efficient Premier Inn at Tamworth, which achieved an 86% reduction in carbon emissions and a 66% reduction in water usage versus a standard hotel of a similar size. We are now building a carbon and water-efficient hotel and restaurant in Burgess Hill which we will open in autumn 2010.

Achieving the Carbon Trust Standard

In December 2009 we were awarded the Carbon Trust Standard. This award requires organisations to measure, manage and reduce their carbon footprint and make reductions year on year. Between 2007 and 2009 Whitbread achieved a 4% improvement in carbon efficiency, which is equivalent to saving 8,562 tonnes of CO₂, or taking 2,446 cars off the road.

Further information can be found in our Good Together report at <http://cr.whitbread.co.uk>.

Business review – key performance indicators

We use a balanced scorecard, called the WINcard to measure our performance against key indicators.

Whitbread in numbers

The WINcard is our unique balanced scorecard. It drives high performance and maps our progress against the Whitbread Way Forward. Every leader in the business from the management teams in our Costa stores, restaurants and Premier Inns, to the Chief Executive has a WINcard which is relevant to their role and level of contribution. All team members in Whitbread can see their achievements and progress on a monthly basis wherever they work. The WINcard measures our performance around our key stakeholders: our customers, our people, our shareholders and a more recent stakeholder addition, our community which is better known as our 'Good Together' strategy. The WINcard aligns our day-to-day activities to the overall vision and strategy of the Company and helps us to measure our progress.

The WINcard has enabled a performance culture to thrive across all levels of the organisation and mobilises our people to act around shared goals. The WINcard measures are used as key indicators in personal development planning, for recognising excellent performance, in coaching and performance management, supporting talent management and succession planning. It is a core component of our incentive framework at all levels.

The WINcard educates, motivates and engages our leaders and teams across the business to focus, prioritise and deliver what is required to achieve success.

WINcard results in 2009/10

The measures on the WINcard were updated in 2009/10 to include central costs and cash. The new measures replaced ROCE growth and brand expansion. These changes were made to reflect the Group's new priorities in light of the general economic conditions.

During the year, Whitbread achieved an 'all green' WINcard at Group level. This is an excellent result and means that we met or exceeded our targets on all key measures. Information on our achievements during the year and on our targets for the year ahead are set out in the table opposite. In addition, the WINcard results for Hotels and Restaurants and Costa are set out on pages 20 and 26 respectively.

Changes for the year ahead

We have given careful consideration as to what the appropriate indicators should be going forward and to the setting of targets for the year ahead.

A fundamental change of approach made following consultation with the Remuneration Committee was that the WINcard should have a longer-term perspective and should not be set with just the year ahead in mind. As such, provisional targets have been established for each of the WINcard measures for the next five years, with the overriding principle being one of continuous improvement. The targets for 2010/11 are simply the first step. Targets will still be set annually, but with a longer-term perspective.

Health and safety has been a key measure on the WINcard since it was first established, and continues to be so. However, rather than being included simply as a bonusable measure, health and safety is now a hurdle and 20% of the total WINcard bonus payable will be lost if health and safety targets are not met. This further demonstrates the importance of health and safety to Whitbread and our ongoing commitment to looking after the welfare of our customers and employees.

As detailed on pages 30 and 31 of this report, we have launched Good Together during the year. For 2010/11 we have added a new measure at Group level of electricity and carbon reduction. We have also replaced the team turnover measure with team engagement, which is described in more detail on page 12. Another new measure is Premier Inn market performance, which measures Premier Inn's RevPAR against the budget hotel sector.

The WINcard is designed to ensure that we are meeting our objectives to our stakeholder groups; investors, customers, our people; and community.

Achievements in 2009/10		Targets for 2010/11
Investor measures		
Central costs	● Achieved £20 million of cost efficiencies.	Not a WINcard measure in 2010/11, but a further annual saving of £5 million is targeted.
Cash	● Positive cash flow of £109.7 million, exceeding cash neutrality target.	Cash neutrality.
Profit	● Underlying profit ahead of budget at £239.1 million.	Improved profit performance.
Premier Inn market performance*	Premier Inn outperformed the budget hotel sector on RevPAR.	This will be a new measure on the WINcard requiring continued outperformance.
Customer measures		
Like-for-like sales growth	● Group like for like sales down by 0.6%. A good result in light of the general economic conditions.	Improved like for like sales growth.
Brand standards	● Both businesses achieved a green rating in 2009/10. At Group level, the measure is a combination of the brand standards scores for both Costa and WHR.	The audit benchmark has been raised for both businesses.
Customer recommend	● Targets exceeded in Costa and Restaurants. Premier Inn improved on the previous year, but did not reach the tough target and achieved an amber rating. At Group level, the combined results produced a green rating.	The target in all businesses has been increased for the year ahead.
People measures		
Health and safety	● The Group and each of the businesses met health and safety targets. The health and safety audit had been made tougher, so this was an excellent result.	The health and safety audit benchmark has been raised for all businesses.
Team turnover	● Team turnover across Whitbread in 2009/10 was 40.1%, compared to 49.0% in the prior year.	Continued improvement in retention.
Team engagement*	The team engagement score across the Group, as obtained from the YOUR SAY survey, was 60.0%, outperforming the UK norm.	Improved team engagement result.
Good Together		
Electricity/carbon reduction*	This was not a WINcard measure in 2009/10.	Decrease in consumption relative to sales.

The WINcard

- Performance significantly below budget
- Performance marginally below budget
- Performance has met or exceeded the budget

* Note: measures in the table above without a result were not 2009/10 measures, but will be in 2010/11

Business review – Group risks and uncertainties

We have a clear method of managing key risks to the Company.

The Board, as well as the Whitbread Hotel and Restaurants and Costa management boards, regularly review key risks and the status of mitigation plans. The Audit Committee, on behalf of the Board, reviews this process on an annual basis with the internal and external auditors. This risk analysis is used to plan the operational audit's activity and to highlight new areas for focus.

The risks are categorised into the following areas:

Health, safety and security

With around nine million customers per month and 33,000 employees it is vital that the Company focuses on their well-being and safety. With this as a priority we have a well established Safety and Security team that works with our businesses to implement a rigorous health and safety programme. We commission CMI, an independent company, to carry out audits of all our outlets every year to measure their performance against set critical standards. All employees have health and safety on the WINcard and this influences the level of any bonus received in the year. Regular updates are given to the management boards and the Whitbread PLC Board.

During the year we were aware that the threat of a swine flu pandemic could severely affect our customers and employees. A task force was set up to update plans for this contingency, to monitor the issue within the Company and to set up communication channels.

These plans remain in place in the event of any new threat of this kind.

Strategic business risks

All our businesses operate in a highly competitive environment which is significantly influenced by the UK economy.

As has been mentioned earlier in the report, the Company reacted to the recession by adopting a plan to outperform competitors, achieve cash neutrality and cut costs. The growth programme in the UK was slowed but advantage was taken of the fall in the property market to secure sites for future development.

The Company continued to review significant economic indicators as part of the business plan and budgeting process and to reflect them as appropriate.

In terms of competitive activity, each of the businesses measures its performance against the closest competitors and the market as a whole. Actions to outperform the competition are developed on a strategic and tactical basis with success being monitored regularly. Significant customer research is carried out with the Premier Inn guest feedback form eliciting 500,000 responses in the year. Each of the businesses carries out market research and analysis of consumer trends in the UK and overseas. This market information is reviewed by the Board and the management boards.

Financial loss

In a group the size of Whitbread there are a number of areas where there could be a significant financial loss if appropriate controls were not in place. Millions of pounds in cash are collected and transferred between bank accounts. The treasury policy sets the level of authority and segregation of duties which protect against such losses and PwC as operational auditor reviews these controls each year. The overseas businesses also have clear rules and policies over the operation of bank accounts and the transfer of funds.

Funding

The availability of funds from the Company's banking facilities is important for the day to day running of the businesses as well as its growth. There are regular reviews of the level of funds available to the Group. Such reviews also check that the terms of the loan agreements are being complied with. The Board approves a funding policy by which the level and service of borrowings for the Group is set.

Market expectations

It is important that the market receives regular and accurate information concerning the Company and that the external expectations for the year are accurate.

There are a number of management processes designed to keep track of progress against internal targets and market expectations. Each part of the Group has an agreed budget. Monthly management reports are produced which are reviewed by the management boards, and the main Board.

The workplace environment, particularly kitchens, can be dangerous without proper training. Ensuring the health and safety of our people and customers is a key priority



The market is kept informed through quarterly trading updates and the interim and full year financial statements.

Business continuity

It is crucial that we can continue to serve our customers with high quality products every day of the week. Our supply chain for food and drink along with key systems underlying the businesses are critical to that process.

To guard against the risk of failure in any of those suppliers or services we have developed contingency plans including sources of alternative supply and back up of information. Auditing and monitoring of suppliers also protects against this risk. There is a robust audit programme for our suppliers who have to pass exacting food safety and provenance pre-qualification. Training programmes for our employees endeavour to ensure that the food and drink served is of the appropriate quality.

Counterparty and third party contract

The Group is party to a number of contracts which are important to the businesses. There is a continued risk that a counterparty fails to be able to fulfil its part of a contract. A current risk is the failure of a tenant of a lease to which a group company was originally a party. This could mean that the Group becomes liable once more to meet the obligations under the lease. This risk is carried by all companies selling leasehold interests, but is highlighted in times of economic downturn.

Credit control checks are carried out on parties to significant contracts along with continued auditing and monitoring of such contracts. Regular reviews are carried out on the potential for privity of contract claims and, when they are received, all efforts are made to lessen the financial liability through negotiation with the landlord or sale of the lease.

Customers/key relationships

None of the Group's businesses are over-reliant on any particular customer or supplier. Key suppliers have been identified and mitigation plans have been put in place for the potential failure of those suppliers. Other key relationships include those with joint venture partners, franchise partners and the operators of restaurants on co-located sites.

Pensions

The Company has obligations in relation to the Whitbread defined benefit pensions scheme and any valuation deficit that arises. There is a clear risk that the deficit will increase and therefore involve the Company in having to make further contributions as part of the funding plan required by the Pensions Regulator. The scheme is now closed to new members and for future service to existing members. The Board receives regular reports from the pension trustee on its asset allocation and is consulted on changes to investment policy. The advisers to the Company work with those of the trustee to mitigate the risk.

International

As Costa operates in 24 overseas territories and Premier Inn is now establishing a presence in the Middle East and India there is a risk of a loss arising from a lack of controls. To counter this risk, a rigorous approval process and controls environment has been established and is reviewed by the operational audit team. Monthly updates are given to the management boards.

Reputational risk

A strong corporate reputation amongst our stakeholders is vital to the long term strength and resilience of our brands, our ability to attract and retain talent and investment, and our license to operate in new locations and markets. Effective risk management contributes to a positive reputation. However, we believe that this alone is no longer enough. It is important to understand and respond to the opportunities and risks presented by corporate responsibility and to engage our investors, our people and our customers on key sustainability issues. For this reason we launched our Good Together programme in 2009. To learn more about this initiative please visit our Good Together Report at <http://cr.whitbread.co.uk>.



www.whitbread.co.uk

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