Annual Report and
Accounts 2009/10

EAT SLEEP & DRINK
WHITBREAD

Annual Report 2009/10

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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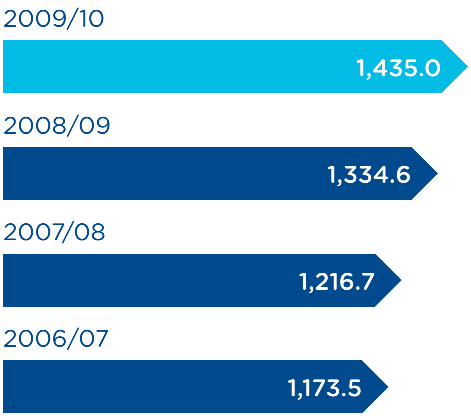
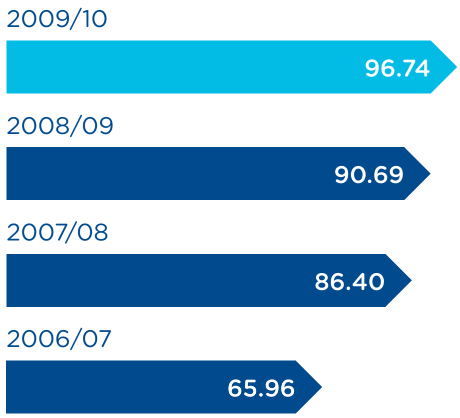
Financial highlights

Whitbread has performed strongly in the most challenging hotel and restaurant trading conditions for a generation. Underlying profits have been increased by virtue of outperforming our markets and improving operating efficiency.

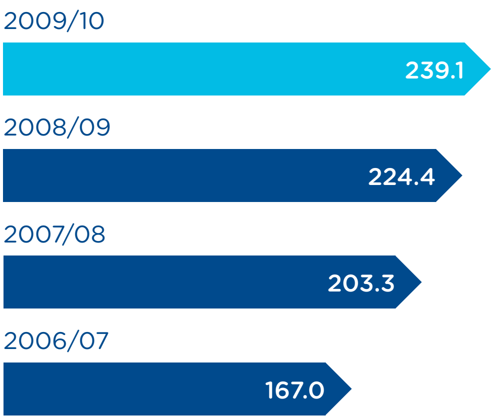
Total revenue[1] (£m)



Underlying diluted EPS[2] (p)



Underlying profit[3] before tax (£m)



Full year dividend (p)

1. *Total revenue from continuing businesses.*
2. *Based on total operations.*
3. *Underlying profit for the continuing business excluding exceptional items and the impact of the volatile pension finance cost/credit as accounted for under IAS 19.*

Chairman's statement

Whitbread has come through a difficult economic period very creditably. It is trading well and has opportunities for growth, both in the UK and internationally.

Anthony Habgood
Chairman, Whitbread PLC

Sir Michael Angus
It is with great sadness that I report that Sir Michael Angus, who was a director of Whitbread from 1986 to 2000 and Chairman for the last eight of those years, died on 13 March 2010. Sir Michael was a highly respected businessman and his experience in many roles, but principally as Chief Executive of Unilever, was invaluable to the Company. Having worked with Sir Michael as a fellow non-executive director at another company I saw at first hand his fast mind and quick wit. He will be sorely missed.

When I wrote to you at this time last year we were all facing a period of unprecedented economic turmoil. As I said at the time, Whitbread had already taken action to prepare itself for a downturn and we entered 2009/10 with a robust balance sheet, market-leading brands in value for money sectors and proven operational expertise. That preparation stood us in good stead.

During 2009/10 Premier Inn took action to reinforce its value for money credentials and to attract more leisure customers against the backdrop of a falling hotels market. This delivered beneficial results, particularly in the second half of the year. Our restaurants also focused on more value for money offers which contributed to improved performance. Costa had a very successful year with strong marketing activity and the introduction of new products including Flat White coffee.

Whitbread has come through a difficult economic period very creditably. It is trading well and has opportunities for growth, both in the UK and internationally. Revenues at our Hotels and Restaurants business increased by 3.2% ending the year on an improving trend. Revenues at Costa increased by 23.4% – an excellent performance. Premier Inn grew, as planned, by over 2,200 rooms while also securing land for future development. We added five new pub restaurants and over 300 new coffee shops.

Our increased focus on cash management and continuing cost reduction programmes were key

I am delighted that Andy Harrison will be joining us to succeed Alan Parker on his retirement in November. Andy's skills and experience are ideally suited to build on Alan's successful management of the Company and to take advantage of our growth opportunities.

Andy Harrison, Chief Executive Designate

to our success in the year and the Company has ended the period with a positive cash flow of nearly £110 million – exceeding our target for cash neutrality.

We believe that 2010/11 will continue to be a difficult economic environment for our customers and we will therefore remain focused on prudent and tight management. Growth remains a priority and, in the short term, this will be on a measured basis until we see more sustained signs of recovery.

Chief Executive succession
On 3 March 2010, we announced that Alan Parker has decided to retire on 25 November 2010, his 64th birthday. Alan has made an invaluable contribution to the growth and development of Whitbread during his six years as Chief Executive. Under his leadership Whitbread has grown to become the UK's leading hospitality company with a strong focus on value for money brands.

In anticipation of Alan's retirement, the non-executive directors under my chairmanship, began the search for his successor. We conducted a thorough international search and selection process, the details of which can be found on page 45, and had a number of high quality candidates. The result of this process was that we decided to appoint Andy Harrison to succeed Alan. Andy is currently Chief Executive at easyJet PLC, which he joined in 2005, having previously spent nine years as Chief Executive of RAC PLC. He will join us on 1 September and take over from Alan as Chief Executive in late November.

We are delighted with this appointment. Andy has 14 years' proven experience as a successful leader of two significant consumer-facing and service oriented public listed companies. Most recently, at easyJet, he has successfully led and profitably internationalised a leading value for money brand in a highly competitive market. Whitbread has opportunities for growth, both in the UK and through developing our international presence. We believe that Andy's skills and experience are ideally suited to lead Whitbread and to take advantage of these opportunities.

Dividend
The Board recommends a final dividend of 28.35p per share, making a total dividend for the year of 38.00p per share, up by 4%. The final dividend will be paid on 14 July 2010 to shareholders on the register at the close of business on 14 May 2010. Once again, a scrip dividend alternative will be offered and further information on how shareholders can elect to participate in the scrip dividend scheme are available from the registrars or on the Company's website.

Board
Charles Gurassa stepped down from the Board in September 2009 having served for nine years as an independent non-executive director and for much of that time as Chairman of the Remuneration Committee. I would like to thank Charles for his significant input to the Board. He was a major contributor at an extraordinarily important time as Whitbread evolved into a focused hotel and restaurant company.

Also in September 2009, Richard Baker joined the Board as an independent non-executive director. Richard was Chief Executive of Alliance Boots from 2003 until 2007 having led the merger of the Boots Group and Alliance Unichem in 2005. Before that time Richard held a number of roles, including Chief Operating Officer at Asda. He is currently Chairman of Virgin Active and Groupe Aeroplan Europe as well as being an Operating Partner of Advent International. We are delighted to welcome Richard to our Board. His wealth of experience in consumer-facing industries, as well as at senior Board level, will be a great asset to Whitbread.

Our people
Being a truly customer focused organisation requires our people to make everyday experiences feel special to our customers. All our employees are extraordinarily committed to providing excellent service and I would like to thank them on behalf of the Board for their efforts over the past year.

Anthony Habgood

Anthony Habgood
Chairman

28 April 2010

Business review – Chief Executive

Whitbread outperformed its markets and increased profits in 2009/10, despite the challenging economic backdrop.

Alan Parker, CBE
Chief Executive, Whitbread PLC

The fundamentals of Whitbread are strong and provide a firm foundation for sustained profitable growth in both the short and medium term.

Whitbread has performed strongly in the most challenging hotel and restaurant trading conditions for a generation. Underlying profits have been increased by virtue of outperforming our markets and improving operating efficiency. We have achieved a significant reduction in net debt while, at the same time, increasing the number of new sites acquired for our future development.

Group underlying profit before tax increased by 6.6% to £239.1 million (2008/09: £224.4 million), with underlying earnings per share (diluted) increasing by 6.7% to 96.7p. We achieved our three stated priorities: to outperform the market; to reduce operating costs; and to achieve cash flow neutrality.

Group revenue grew year on year by 7.5% to £1,435.0 million, driven by the growth in the number of hotels, restaurants and coffee shops despite a modest decline in like for like sales of 0.5%. At Premier Inn, sales rose 4.7%, with like for like sales declining 4.3%. Sales at our restaurants rose 1.3%, with like for like sales up 1.7%. At Costa, sales increased by 23.4%, with like for like sales up 5.5%.

Trading in the first half of the year was impacted by the challenging operational environment, but this improved in the second half. In the last quarter of 2009/10 all our businesses demonstrated positive momentum with Group like for like sales growth of 3.1%.

One of our new solus sites on Citadel Way in Hull

At the year end, net debt was reduced by £109.7 million to £513.4 million compared to £623.1 million last year.

The Board recommends a final dividend payment of 28.35p per share, making a total dividend for the year of 38.0p per share. The final dividend will be paid on 14 July 2010 to shareholders on the register at the close of business on 14 May 2010. A scrip dividend alternative will again be offered.

Successfully achieving our three key priorities

Whitbread is a focused hospitality company with brand leadership in attractive, value for money sectors. In 2009/10 we set out a clear action plan with three priorities to manage through the downturn. We have successfully achieved all these priorities and have become a stronger, more competitive and efficient business.

1. Outperforming the market

Premier Inn outperformed its competitors during 2009/10. Regional revpar was down 6.4% during the year, compared to a decline of 8.5% in the regional budget hotel sector and a decline of 9.6% across the whole regional hotel market. We set out a commercial action plan to reinforce our status as the preferred hotel brand for corporate travellers and to attract more leisure customers. We are pleased to report good progress on all fronts.

Our restaurants have continued to achieve like for like growth, consistently outperforming the market. Customers have been attracted to the great value for money food and drink, offered in well-maintained environments.

Costa has seen 32 consecutive quarters of like for like sales growth. Costa achieved a 59.5% increase in pre exceptional operating profit in 2009/10 and grew like for like sales by 5.5%. The key drivers behind this outstanding performance are Costa's clear position as the coffee lovers' preferred brand and our continued expansion in the UK and overseas.

2. Reducing operating costs

We have reduced overheads by streamlining management, improving the efficiency of our back-office processes and delivering a series of procurement initiatives. As we expand our outlet numbers, we have been able to offer over 1,200 new jobs for frontline employees.

3. Achieving cash flow neutrality

We have exceeded our cash flow targets by £109.7 million. Tight management of working capital, lower capital spend and rescheduled payments to the pension fund have all contributed to the improved position. Net debt at the year end has therefore reduced to £513.4 million (2008/09: £623.1 million). The Group's total debt facilities currently stand at £1,155 million and provide ample headroom for the future.

Looking ahead: building market share

Growth from a relentless focus on our customers

- Premier Inn – growing like for like occupancy back to 80%.
- Restaurants – driving a value strategy to gain volume.
- Costa – market innovation to strengthen leading position.

Improving momentum during the year was seen from our engines of growth: Premier Inn, with its restaurant joint site model; and Costa, the great food and beverage success story, both at home and internationally. There are significant further growth opportunities across all our brands by building brand preference and from outlet expansion. We will leverage these opportunities using a sophisticated approach towards understanding our customers.

In 2009/10 we set out a commercial action plan for Hotels and Restaurants, to build on our competitive edge for the business market and to attract more leisure customers. We put in place four key levers: focused advertising; increased sales activity; Premier Offers; and widening reservation distribution. This work will continue during the course of 2010/11 as we make an additional £8 million marketing investment and realise the full benefits of dynamic pricing.

Our value for money restaurants have never been more relevant to today's family dining needs. Our well established meal deal offers, such as two meals for £9 at Brewers Fayre, have achieved significant success and now over a quarter of all diners take up these attractively priced menu options.

Our customers can kick-start their day with one of our delicious breakfasts made from great quality ingredients

At Costa, our fundamental proposition is the quality of our hand made coffee, served in a welcoming environment. A strong driver of success was our breakthrough marketing campaign derived from independent customer research showing 7 out of 10 coffee lovers preferred Costa's cappuccino. Costa also used its understanding of customer preference to introduce the new Flat White coffee, which has been an excellent contributor to incremental sales since its launch in January 2010. At the start of the new financial year Costa launched a new points-based loyalty card which has exceeded initial targets.

Expanding our network

We have clear short and medium term growth plans:

- Premier Inn to increase room numbers in 2010/11 by over 2,500 rooms (+6%) and target a 32% increase to 55,000 rooms in the UK by the end of 2014/15, as well as international expansion; and
- Costa to increase store numbers in 2010/11 by net 250 stores (+16%) and target an 88% increase to 3,000 stores by 2014/15, maintaining market leadership in the UK and building five key overseas businesses; in China, India, Russia, the Middle East and Central Europe.

We benefit from our robust balance sheet and strong freehold asset base. We have grown our secured future pipeline of hotel sites to 10,000 rooms by taking advantage of the reduced property market prices.

This pipeline underpins our stated strategy to expand Premier Inn to 55,000 rooms in the UK by the end of 2014. In 2010/11 the target opening schedule is 29 new Premier Inns (over 2,500 rooms), which include ten new restaurants on joint sites.

Costa is the UK's largest coffee shop brand, and has grown to become the second largest international coffee shop business with 1,600 stores worldwide. In the UK, we plan to open around 130 stores during 2010/11. This growth includes opening in new high street locations, adding stores in established retail outlets, such as our partnership with Tesco, and bringing the Costa experience to hospitals and universities.

Our international business will be the focus of the next phase of Costa's growth, boosted by the acquisition of Coffeeheaven. This transaction completed in the last quarter of 2009/10 and added 89 new stores in the important Central European region. Costa plans to increase overseas outlet numbers by around 120 stores during 2010/11 in the key target markets of China, India, Russia, the Middle East and Central Europe.

Good Together corporate responsibility programme

Whitbread has always put a high value on being a responsible business. In January 2010 we launched Good Together, the umbrella programme for company-wide initiatives to drive sustainable performance and further deepen our corporate responsibility. We have set targets for CO_2 reduction, sustainable sourcing and waste management. We will open the UK's first totally new build green hotel and restaurant in the autumn. We have also reaffirmed our commitment to offer career enhancement to our people through apprenticeships and professional skills attainment. We aim to lead the hospitality sector towards a more sustainable way of working and create an important differentiator, valued by our customers, in the future.

Current trading and outlook

We are confident we have the right hospitality brands, positioned to offer value for money in attractive, underpenetrated and growing segments of the market. The fundamentals of Whitbread are strong and provide a firm foundation for sustained profitable growth in both the short and medium term. This growth will be delivered through our expansion plans as well as by relentlessly focusing on meeting the needs of our customers. While the level of economic recovery remains unclear, the first seven weeks of the financial year have started well, with positive momentum across the business.

Leading Whitbread

As you know, I announced in March this year that I will retire from the Company in November 2010. When I became Chief Executive of Whitbread in June 2004, Whitbread was a very different company. We had ten businesses, including David Lloyd Leisure and a number of brands that we didn't own such as T.G.I. Friday's, Pizza Hut and Marriott.

We are confident we have the right hospitality brands, positioned to offer value for money in attractive, underpenetrated and growing segments of the market.

Cash returned to shareholders	£2bn
TSR	+134%
EPS growth	76%
Improvement in ROCE	25%

Progress since 2004

Six years on we are the UK's largest hotel and restaurant group focused on our joint site Premier Inn and restaurant model and the extremely successful Costa brand. In 2004 we had 302 budget hotels under the Travel Inn name and less than 19,000 rooms. Today we have over 42,000 rooms in 588 Premier Inn hotels. The growth of Costa during the last six years has been exceptional and the 1,600 stores we have today compares to 346 in 2004. Costa is now the largest coffee shop business in the UK and the second largest international coffee shop business.

Whilst continuing to expand our Premier Inn and Costa businesses in the UK, we have also started to exploit opportunities overseas. We now have hotels operating in the Middle East and India and Costa stores can be found in 24 different countries. I am very proud of the progress that has been made to make the Company what it is today.

I am delighted that we have been able to deliver excellent results for our shareholders, with £2 billion returned to date, whilst transforming the Company. This would not have been possible without the fantastic support of Whitbread's people. It has been a privilege to work alongside such a committed group of people throughout the organisation and I'd like to thank all of them for their continuing contribution to the Company.

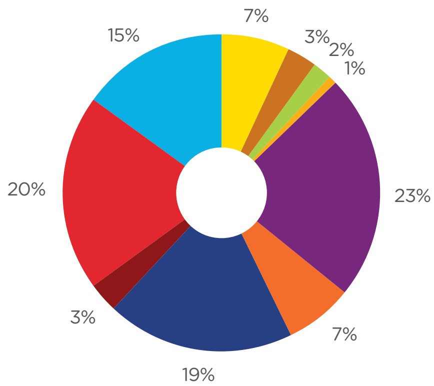
When I retire, I will be handing over the reins to Andy Harrison.

I was very pleased when Andy accepted the role and I am confident that he will be an outstanding Chief Executive for Whitbread. I would like to take this opportunity to wish Andy and everyone at Whitbread every success for the future. In the meantime, I am looking forward to the coming six months or so and to continuing the Whitbread Way Forward.

Alan Parker
Chief Executive

28 April 2010

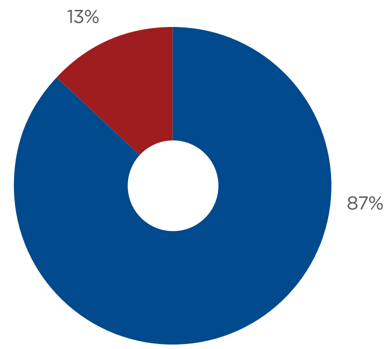
Structural transformation
2003/04 profit



Ten business units

- Marriott
- David Lloyd Leisure
- Britvic
- T.G.I. Friday's
- Pizza Hut UK
- Maredo
- Premier Inn
- Beefeater
- Brewers Fayre
- Costa

2009/10 profit



- Hotels and Restaurants
- Costa

Business review – Finance Director

The policy of the Board is to manage its financial position and capital structure in a manner which is consistent with Whitbread maintaining its investment grade status.

Christopher Rogers,
Finance Director

Revenue

Group revenue in the year increased by 7.5% to £1,435.0 million.

Revenue by business segment

£m	2009/10	2008/09	% Change
Hotels and Restaurants	1,096.0	1,061.6	3.2%
Costa	340.9	276.3*	23.4%
Less: other**	(1.9)	(3.3)	
Revenue	1,435.0	1,334.6	7.5%

**Sales of £12.5 million to Costa franchise partners, which were previously recorded as other but are now included in Costa revenues.*
***Predominantly inter-segment revenue.*

The increase in revenue has come from growth in the number of units and like for like sales: Premier Inn added 15 new hotels and 2,240 rooms; five new restaurants were opened; and Costa opened 188 net stores in the UK and 35 overseas excluding the acquisition of Coffeeheaven which added a further 89 overseas stores. Like for like sales for the Group were down (0.5%) with Costa up 5.5% and Hotels and Restaurants down (1.8%). The trend in like for like sales performance improved as we went through the year.

Quarterly like for like sales performance 2009/10

%	Q1	Q2	Q3	Q4
Premier Inn	(7.9)	(7.1)	(3.1)	2.0
Restaurants	2.0	1.6	2.3	1.1
WHR	**(3.7)**	**(3.6)**	**(1.0)**	**1.6**
Costa	2.6	2.4	6.7	9.6
Group	**(2.7)**	**(2.7)**	**0.3**	**3.1**

Results

Last year we introduced an underlying profit measure on the face of the consolidated income statement.

The directors believe that this measure provides useful information for shareholders on the underlying trends and performance of the Group as it excludes exceptional items and the impact of volatile financial costs under IAS 19.

Underlying profit for the year is £239.1 million, up 6.6% on the prior year and underlying diluted earnings per share 96.7p (2008/09: 90.7p).

Total profit for the year is £160.0 million which compares to £90.3 million last year.

Exceptional items

Exceptional items are analysed in more detail in note 6. The principal items are the final costs of the £25 million cost reduction programme announced in 2008 amounting to £9.9 million, a net impairment charge of £1.5 million and a provision of £21.2 million for lease reversions offset by profits arising from the disposal of a number of properties (primarily relating to the sale and leaseback transaction) announced earlier in the year of £14.6 million. The lease reversions are largely in respect of the expected cost of leases arising as a result of the administration of First Quench Retailing Limited on 29 October 2009, a company to which the Group had previously transferred a significant number of leasehold properties. A provision has been made for the costs we will incur on approximately 130 properties until the leases expire or are reassigned.

Interest

The underlying interest charge is £25.7 million, a reduction of 16.0% on the previous year, reflecting lower interest rates that the Group has been charged during the year.

The total pre exceptional interest cost amounted to £41.2 million. Included within this figure is an IAS 19 pension charge of £15.5 million (2008/9 pension credit of £5.5 million). This charge represents the difference between the expected return on scheme assets and the interest cost of the scheme liabilities. In 2010/11 this is expected to be a pension charge of £11.5 million.

Tax

An underlying tax expense of £71.1 million represents an effective tax rate of 29.8% on the underlying profits, which compares with 30.3% last year. The year on year movement has been predominantly driven by the impact of the rising share price on the tax associated with share-based payments. An exceptional tax credit of £16.8 million occurred during the year as a result of a reduction of the deferred tax liability on rolled over gains.

Earnings per share
Diluted underlying earnings per share increased by 6.7% to 96.7p.

EPS	2009/10	2008/09
Underlying (diluted)	96.7p	90.7p
Non GAAP adjustments: Pension finance cost	(6.4p)	2.3p
Exceptional items	1.9p	(40.2p)
Total operations (diluted)	92.2p	52.8p

Details can be found in note 11.

Dividend
A final dividend of 28.35p will, subject to approval at the AGM, be paid on 14 July 2010 to shareholders on the register at the close of business on 14 May 2010. The total dividend for the year at 38.0p is up by 4.0%. A scrip dividend alternative will again be offered.

Net debt and cash flow
During the year there was a cash flow inflow of £109.7 million reducing year end net debt to £513.4 million (2008/09 £623.1 million). The principal movements were:

£m	2009/10	2008/09
Cash flow from operations*	375.8	334.7
Capital expenditure	(131.7)	(276.3)
Acquisitions / overseas investment	(42.0)	(47.5)
Pension contribution	–	(50.0)
Disposal proceeds	41.8	(1.0)
Interest, tax and dividends	(132.1)	(134.6)
Other	(2.1)	(22.6)
Net cash flow	109.7	(197.3)
Net debt bfwd	(623.1)	(425.8)
Net debt cfwd	**(513.4)**	**(623.1)**

** This agrees to cash generated from operations in the accounts excluding the pension payments.*

The improvement in cash generated from operations was as a result of increased profitability and an £18 million improvement in working capital. The disposal proceeds relate to a sale and leaseback of five properties undertaken in December 2009, plus proceeds from the sale of a number of standalone restaurants.

The weighted average net debt in the year was £569.2 million compared to £531.0 million last year.

As at 4 March 2010 the Group had committed revolving credit facilities of £1,155 million. The facilities reduce to £930 million in December 2010, £855 million in December 2011 and £455 million in December 2012 with the remaining facility maturing in March 2013. In 2010, subject to market conditions, we will begin to diversify our sources of financing.

The policy of the Board is to manage its financial position and capital structure in a manner which is consistent with Whitbread maintaining its investment grade status.

Capital expenditure and business acquisitions
Total Group cash capital expenditure during the year was £131.7 million with Hotels and Restaurants spend amounting to £111.6 million, Costa £15.2 million and Corporate £4.9 million. Capital expenditure on the businesses is split between acquisition expenditure, which includes the acquisition and development of properties (£65 million) and maintenance expenditure (£61 million). In addition £38.8 million (net of cash acquired) was spent on business acquisitions, including the acquisition of Coffeeheaven, and £3.2 million on international investments. This brings the total cash outflow on capital expenditure and business acquisitions, including the purchase of intangible assets, to £173.7 million.

Pensions
As at 4 March 2010 there was an IAS 19 pension deficit of £434.0 million, (£341.0 million after tax) which compares to £233.0 million (£167.8 million after tax) as at 26 February 2009.

During the year the Group entered into a transaction with Whitbread Pension Trustees described in further detail in note 32.

In summary, the Group contributed £102 million to the Pension Fund which was then invested by Whitbread Pension Trustee into a newly formed partnership within the Group, Moorgate Scottish Limited Partnership (“Moorgate”). Moorgate used this investment from the Pension Fund together with further investments from other Whitbread Group companies to invest in a second partnership, Farringdon Scottish Partnership (“Farringdon”) in which another Whitbread Group company also invested. Farringdon used the funds to acquire a number of hotels and restaurants from Group subsidiaries for around £221 million. These properties were leased back to the selling subsidiary and continue to be operated by that Group company. The assets and activities of the partnerships will be consolidated within the Group accounts of Whitbread PLC by virtue of the Group’s interest in the controlling general partner of Moorgate and its interest in Farringdon.

The Pension Fund has received benefit through its interest in Moorgate as it now holds security over property and other assets as noted above. In addition, the Pension Fund will receive an annual payment for the duration of the lease arrangements, expected to be 15 years, being its share of the profits from its interest in Moorgate. This arrangement has replaced the previous charge over certain assets given to the Pension Fund prior to entering into the above transaction. At the end of these arrangements if there is a pension deficit, the Pension Fund will receive a cash payment of the amount of the deficit up to a maximum of £109.95 million.

As a result of the above transaction, the Group has received a current tax credit of £28.6 million in respect of its £102 million funding of the Pension Fund. There is a corresponding deferred tax charge of £28.6 million reflecting the lower tax deductions now available in future periods from the Group’s funding of the deficit position.

Christopher Rogers
Finance Director

28 April 2010

www.whitbread.co.uk

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