

Whitbread Group PLC
Consolidated Report & Accounts

27 February 2014

Registered Number: 29423

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Directors' Report

The directors present their report and accounts for the year ended 27 February 2014.

Principal activities

The principal activities of the Group are the operation of a hotels and restaurants business and a coffee shop business. Premier Inn's operations are largely carried out in the UK, although it operates one hotel in Ireland and three hotels in India, the latest of which opened in Pune in August 2013. It also has a joint venture, which operates five hotels in the Middle East. Costa operates coffee shops in 30 overseas markets through joint ventures in China, shops on a franchise basis, and wholly owned coffee shops in Eastern Europe and France.

The directors did not declare a dividend in the year (2012/13: £nil).

Directors

Details of the directors who served during the year end up to the date of this report are listed on page 2.

Directors' remuneration and interests in shares

Details of the directors' remuneration and interests in shares and options to subscribe for shares in the parent company of the Group are shown in the Annual Report and Accounts of Whitbread PLC for the year ended 27 February 2014.

Political donations

No political donations were made during the year (2012/13: £nil).

Events post the balance sheet date

None.

Future likely developments

Recently the Group announced new ambitious growth milestones for 2018. In Premier Inn they are to grow Premier Inn UK rooms from 55,000 in the UK today to around 75,000 rooms and to reach around 10,000 rooms overseas. This will be achieved by winning share from independents and other branded hotels and growing the brand in selected international markets using a capital right model. In Costa, the target is to grow system sales to around £2 billion by 2018, up from the £1.2 billion sales last year. This will mean that there will be more than 2,200 UK stores by 2018 and significant growth in the franchise and equity business internationally, with particular focus on extending the footprint in China.

For further information on future likely developments please see the business review included in the Annual Report and Accounts of Whitbread PLC (the immediate and ultimate parent company) for the year ended 27 February 2014.

Employment policies

Whitbread has a range of employment policies covering such issues as diversity, employee well-being and equal opportunities.

The Company takes its responsibilities to the disabled seriously and seeks not to discriminate under any circumstances (including in relation to training, career development and promotion) against current or prospective employees because of any disability. Full and fair consideration is given to applications for employment made by disabled persons, having regard to their aptitudes and abilities. Employees who become disabled during their career at Whitbread will be retained in employment wherever possible and given help with rehabilitation and training.

Directors' indemnity

A qualifying third-party indemnity provision (as defined in Section 236 (1) of the Companies Act 2006) is in force for the benefit of the directors.

Whitbread Group PLC

Disclosure of information to auditor

The directors have taken all reasonable steps to make themselves aware of relevant audit information and to establish that the auditor is aware of that information. The directors are not aware of any relevant audit information which has not been disclosed to the auditor.

Going concern

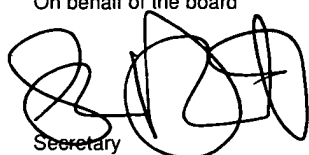
The Group has considerable resources and as a consequence, the directors believe that the Group is well placed to manage its business risks. The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Auditors

Ernst & Young LLP have expressed their willingness to continue in office as auditor of the Group and Company.

The consolidated financial statements of Whitbread Group PLC for the year ended 27 February 2014 were approved and authorised by the Board of directors on 15 August 2014.

On behalf of the board

A large, stylized handwritten signature in black ink, consisting of several loops and a long horizontal stroke.

Secretary

15 August 2014

Directors' responsibility statement

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' Report and the consolidated financial statements in accordance with applicable company law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law, the directors must not approve the consolidated financial statements unless they are satisfied that they present fairly the financial position of the Group and the results and cash flows of the Group for that period. In preparing those consolidated financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting policies, changes in accounting estimates and errors, and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the consolidated financial statements comply with IFRS subject to any material departures being disclosed and explained in the consolidated financial statements;
- prepare the consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in its business;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance.

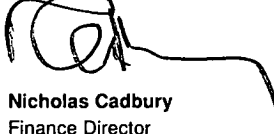
The directors are responsible for keeping adequate accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the consolidated financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence, taking reasonable steps for the prevention and detection of fraud and other irregularities.

Responsibility statement

We confirm on behalf of the Board that, to the best of our knowledge:

- the consolidated financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and result of the Group; and
- the strategic report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board,



Nicholas Cadbury
Finance Director

Strategic Report

Introduction

The business philosophy is built around the "Customer Heartbeat" model details of which can be found in the Strategic Report of the Annual Report and Accounts of Whitbread PLC for the year ended 27 February 2014. The model ensures that we deliver for the customer, for employees, for the community and drives profitable growth.

Business Review

Delivering for the customers

The aim is to build strong brands by putting customers at the heart of everything we do and we are proud to have the UK's leading coffee shop and budget hotel brands as measured by Allegra Strategies and YouGov respectively. Success is measured through customer feedback in the form of both brand preference scores and net guest scores. Focus is on increasing the number of customers who are very satisfied with their experience (and more likely to recommend us to their friends and family) and reducing the percentage who are dissatisfied. Record guest scores have been achieved for all our brands in the UK in 2013/14. Great customer service needs to be backed up with great products and investment of over £100 million has been spent in the year in maintaining and upgrading our existing hotels, restaurants and coffee shops ensure that they are the best in their markets. An enduring focus on innovation is producing exciting fresh experiences for customers, whether that's a new range of speciality lattes or a completely new hotel concept in 'hub by Premier Inn', which launches later this year.

Delivering for employees

Being passionate about building highly engaged Winning Teams means being committed to making sure Whitbread is a great place to work. Work is being undertaken to create jobs for young, often long-term unemployed people who need that all important break to get into work and, once they've joined, to give them the opportunity to develop their skills in a structured way through industry leading training programmes. Teams take part in a six monthly 'Your Say' survey about what it feels like to work at Whitbread. This year record engagement scores were achieved across all brands and the ranking in the Sunday Times Best Big Companies to Work For 2014 and the UK Top Employers surveys improved, ranking 8th and 3rd respectively.

Delivering for the community

Businesses should be a force for good in the communities and economies in which they operate. The corporate responsibility programme, Good Together, has gone from strength to strength in the five years it has been running. Ambitious targets have been set and details of the performance against these can be found in the Whitbread PLC Annual Report and Accounts for the year ended 27 February 2014.

Driving profitable growth

In 2013/14 total sales grew by 13.0% to £2.3 billion. This growth in total sales was a combination of a 4.2% increase in like for like sales and continuing expansion of our network. During the year 23 net new Premier Inn hotels opened in the UK with 3,364 net new rooms. Growth of Premier Inn in selected international markets also continued. We opened a new Premier Inn hotel in Abu Dhabi, another in Pune, India and have agreements to build 22 hotels in three target regions. Alongside the new Premier Inn hotels in the UK, eight new restaurants were constructed, reinforcing the unique Whitbread joint site model, consisting of a Premier Inn hotel closely adjacent to a Whitbread restaurant. Costa has also continued its strong organic growth with the opening of 334 net new coffee shops worldwide, including 177 in the UK, together with the installation of 955 net new Costa Express machines.

Consolidated Group profit before tax and exceptional items was £381.3m (2012/13: £315.8m). Profit for the year after tax and exceptional items was £320.2m (2012/13: £265.5m).

As a result of the free cash inflow the net debt as at 27 February 2014 reduced by £79.5 million to £391.6 million (2012/13 £471.1 million). The Group has total facilities of £908 million, of which £433 million was drawn at the year end.

Risks and uncertainties

The starting point for the assessment of risks at Whitbread is the Company's business model. The process:

- identifies risk to the achievement of the strategy;
- assesses risks based on the impact and likelihood of a risk occurring on a gross (before taking controls and mitigating factors into consideration), net (post control and mitigation) and target basis;
- outlines key controls and mitigating factors;
- assigns a risk owner to each risk; and
- ensures that risks, controls and mitigating factors are reviewed quarterly and updated as necessary.

The ten principal risks identified, together with a summary of controls, mitigation and assurance processes are summarised below. None of these risks have a high likelihood of occurring after taking into account of controls and mitigation. The new risks included since last years report include the potential for death or serious injury as a result of Company negligence, the inability to operate the Costa roastery for an extended period and two information system risks relating to the Premier Inn booking system and the ineffective implementation of a major systems upgrade.

Whitbread Group PLC

<u>Risk</u>	<u>Mitigation controls</u>	<u>Monitoring and assurance</u>	<u>Current trend</u>
Health and safety risk: death or serious injury as a result of Company negligence	Expertise of the Whitbread safety and security team. External risk engineering programme. Extensive health and safety policies and training.	NSF, an independent company, carries out health and safety audits on every site. Health and safety is a hurdle on the WINcard. Regular updates are provided to the management boards and to the Board	Stable
Health and safety risk: serious health or provenance issue relating to food.	The expertise of members of the procurement, food development and safety and security teams. Stringent food safety policies and a detailed sourcing policy. New traceability and testing requirements introduced in respect of meat and other products. Focus on predicting other potential issues in the supply chain.	NSF, an independent company, carries out regular audits on all suppliers to measure their performance against a range of health and safety standards. Health and safety is a hurdle on the WINcard. Regular updates are provided to the management boards and to the Board	Stable
Market risk: improvement in competitor financial health and/or competitor activity can result in a loss of market share.	Actions to outperform the competition are developed on a strategic and tactical basis. Significant customer research is carried out. The customer insight received is used to develop action plans. Consumer trends, both in the UK and overseas, are analysed and competitor activity is monitored. Monthly reports are produced by each business for the Board.	Relative market share information and timely trading performance data is produced and monitored by the executive teams and the Board.	<u>Premier Inn</u> Improving <u>Restaurants</u> Improving <u>Costa</u> Stable
Financial risk: significant increase in the pension scheme's actuarial and/or statutory deficit resulting in higher pension contributions or the re-rating of the Company's credit.	The Company's defined benefit pension scheme is closed to new members and, for future service, to existing members. The Pension Investment committee and its advisers, as well as the internal pensions team, have significant expertise in the area and provide good quality oversight. The investment strategy has been designed to reduce volatility and risk and hedging opportunities are utilised as appropriate. The Finance Director attends Pension Investment Committee meetings.	The Pensions Director and the external pensions advisors to the Company report regularly to the Board on the funding level and investment strategy of the fund.	Stable
Third-party risk: third-party failing and consequently breaching the terms of a significant contract or giving rise to a privity of contract claim.	Credit control checks are carried out on parties to significant contracts, along with the continued auditing and monitoring of those 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.	Asset management team and credit controllers monitor risks. There is a regular review of the debtors registers by the management boards. Financial controllers review status at half and full-year.	Stable

Whitbread Group PLC

<u>Risk</u>	<u>Mitigation controls</u>	<u>Monitoring and assurance</u>	<u>Current trend</u>
Operational risk: loss or failure to attract key employees.	It is important that the Company continues to offer key employees appropriate levels of reward and recognition in order to retain them. The Company's programme of development and talent planning delivers a strong succession plan.	The Group HR function monitors the number of key employees leaving the Company and conducts exit interviews to understand the reasons. Succession plans are reviewed regularly.	Stable
Operational risk: inability to operate the Costa roastery for more than one week.	Long standing and experienced workforce. Contingency plan, including for coffee to be roasted elsewhere if required.	Regular testing of contingency plan. Independent risk engineering report provided.	Deteriorating
Information systems risks: • disruption the business due to ineffective implementation of a major systems upgrade or installation; • data security breach resulting in the loss of, or improper access to, customer or confidential data; or • failure of the Premier Inn booking system.	The expertise of the IS team in protecting the systems and network. IS security training has been delivered to employees. Third-party expertise is utilised as appropriate. Legal advisers monitor new legislation and advise the IS team.	Systems are continually monitored for irregular activity. Operational audit reviews. The disaster recovery plans are reviewed by the Audit Committee. Regular reporting of information security issues to management.	Stable

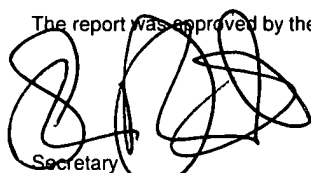
Financial key performance indicators (non GAAP)

		2013/14	2012/13
Like for Like sales growth - Premier Inn	%	5.0%	3.1%
Like for Like sales growth - Restaurants	%	2.3%	1.6%
Like for Like sales growth - Costa	%	5.7%	6.8%
Underlying profit before tax	£m	407.6	345.6
Return on capital - Hotels and Restaurants	%	13.3%	12.4%
Return on capital - Costa	%	40.5%	34.7%
Total rooms - UK and Ireland	No.	55,035	51,671
Total rooms - International	No.	1,703	1,296
Costa Stores - UK equity	No.	1,015	920
Costa Stores - UK franchise	No.	740	658
Costa Stores - International	No.	1,106	949
Costa Express machines	No.	3,515	2,560

Like for like sales growth measures the sales performance of those hotels, restaurants and coffee shops that have been open for more than a year.

The report was approved by the board on 15 August 2014

and signed on its behalf



Secretary

15 August 2014

Independent auditor's report to the members of Whitbread Group PLC

We have audited the consolidated financial statements of Whitbread Group PLC for the year ended 27 February 2014 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cash flow statement and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this Report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibility statement set out on page 5, the directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the consolidated financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Consolidated Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the consolidated financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 27 February 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent Company financial statements of Whitbread Group PLC for the year ended 27 February 2014.



Simon O'Neill (Senior statutory auditor)

*for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham*

 August 2014

Consolidated income statement

Year ended 27 February 2014

		Year to 27 February 2014 £m	Year to 28 February 2013* £m
	Notes		
Revenue	3, 4	2,294.3	2,030.0
Operating costs	5	(1,904.1)	(1,646.1)
Operating profit		390.2	383.9
Share of profit from joint ventures	14	1.6	0.5
Share of profit from associate	15	0.9	0.8
Operating profit of the Group, joint ventures and associate		392.7	385.2
Finance costs	8	(50.6)	(61.4)
Finance revenue	8	0.7	1.8
Profit before tax	4	342.8	325.6
Analysed as:			
Underlying profit before tax	4	407.6	345.6
Amortisation of acquired intangible assets	6	(2.7)	(2.8)
IAS 19 income statement charge for pension finance cost	6	(23.6)	(27.0)
Profit before tax and exceptional items	4	381.3	315.8
Exceptional items	6	(38.5)	9.8
Profit before tax		342.8	325.6
Underlying tax expense	9	(93.1)	(88.9)
Exceptional tax and tax on non GAAP adjustments	6	70.5	28.8
Tax expense	9	(22.6)	(60.1)
Profit for the year		320.2	265.5
Attributable to:			
Parent shareholders		324.7	267.7
Non-controlling interest		(4.5)	(2.2)
		320.2	265.5

* Restated for the impact of IAS 19 (revised 2011), see Note 2

Consolidated statement of comprehensive income

Year ended 27 February 2014

		Year to 27 February 2014 £m	Year to 28 February 2013* £m
	Notes		
Profit for the year		320.2	265.5
Items that will not be reclassified to the income statement:			
Re-measurement (loss) / gain on defined benefit pension scheme	29	(37.7)	41.4
Current tax on pensions	9	14.4	9.0
Deferred tax on pensions	9	(5.7)	(19.0)
Deferred tax: change in rate of corporation tax on pensions	9	(11.8)	(8.5)
		(40.8)	22.9
Items that may be reclassified subsequently to the income statement:			
Net gain on cash flow hedges	23	1.4	8.3
Deferred tax on cash flow hedges	9	(0.3)	(2.0)
Deferred tax: change in rate of corporation tax on cash flow hedges	9	(0.5)	(0.5)
		0.6	5.8
Exchange differences on translation of foreign operations		(7.8)	1.0
Other comprehensive (loss) / income for the year, net of tax		(48.0)	29.7
Total comprehensive income for the year, net of tax		272.2	295.2
Attributable to:			
Parent shareholders		276.7	297.4
Non-controlling interest		(4.5)	(2.2)
		272.2	295.2

* Restated for the impact of IAS 19 (revised 2011), see Note 2.

Consolidated statement of changes in equity

Year ended 27 February 2014

	Share capital £m	Share premium £m	Retained earnings £m	Currency translation reserve £m	ESOT Shares £m	Hedging reserve £m	Total £m	Non- controlling interest £m	Total equity £m
At 1 March 2012	133.7	207.7	791.6	3.7	(13.7)	(28.1)	1,094.9	6.4	1,101.3
Profit for the year*	-	-	267.7	-	-	-	267.7	(2.2)	265.5
Other comprehensive income*	-	-	20.4	1.0	-	8.3	29.7	-	29.7
Total comprehensive income	-	-	288.1	1.0	-	8.3	297.4	(2.2)	295.2
Cost of ESOT shares purchased	-	-	-	-	(8.3)	-	(8.3)	-	(8.3)
Loss on ESOT shares issued	-	-	(3.6)	-	3.6	-	-	-	-
Accrued share-based payments	-	-	9.2	-	-	-	9.2	-	9.2
Tax on share-based payments	-	-	2.2	-	-	-	2.2	-	2.2
Tax rate change on historical revaluation	-	-	1.1	-	-	-	1.1	-	1.1
Additions	-	-	-	-	-	-	-	6.6	6.6
At 28 February 2013	133.7	207.7	1,088.6	4.7	(18.4)	(19.8)	1,396.5	10.8	1,407.3
Profit for the year	-	-	324.7	-	-	-	324.7	(4.5)	320.2
Other comprehensive loss	-	-	(41.6)	(7.8)	-	1.4	(48.0)	-	(48.0)
Total comprehensive income	-	-	283.1	(7.8)	-	1.4	276.7	(4.5)	272.2
Cost of ESOT shares purchased	-	-	-	-	(6.8)	-	(6.8)	-	(6.8)
Loss on ESOT shares issued	-	-	(7.3)	-	7.3	-	-	-	-
Accrued share-based payments	-	-	10.6	-	-	-	10.6	-	10.6
Tax on share-based payments	-	-	6.6	-	-	-	6.6	-	6.6
Tax rate change on historical revaluation	-	-	1.9	-	-	-	1.9	-	1.9
Additions	-	-	-	-	-	-	-	3.2	3.2
At 27 February 2014	133.7	207.7	1,383.5	(3.1)	(17.9)	(18.4)	1,685.5	9.5	1,695.0

* Restated for the impact of IAS 19 (revised 2011), see Note 2.

Consolidated balance sheet

Company Number: 29423

At 27 February 2014

	Notes	27 February 2014 £m	28 February 2013 £m
ASSETS			
Non-current assets			
Intangible assets	11	223.0	215.4
Property, plant and equipment	12	2,894.1	2,748.9
Investment in joint ventures	14	24.9	24.0
Investment in associate	15	2.0	1.7
Derivative financial instruments	23	-	7.1
Trade and other receivables	17	6.0	5.3
		3,150.0	3,002.4
Current assets			
Inventories	16	30.5	26.5
Derivative financial instruments	23	-	1.4
Trade and other receivables	17	124.1	102.1
Cash and cash equivalents	18	41.4	40.8
		196.0	170.8
Assets held for sale	12	1.5	1.5
Total assets		3,347.5	3,174.7
LIABILITIES			
Current liabilities			
Financial liabilities	19	-	9.0
Provisions	21	12.9	10.3
Derivative financial instruments	23	4.3	4.6
Income tax liabilities	9	34.1	35.8
Trade and other payables	24	512.0	487.5
		563.3	547.2
Non-current liabilities			
Financial liabilities	19	433.0	502.9
Provisions	21	32.7	32.6
Derivative financial instruments	23	24.7	18.7
Deferred income tax liabilities	9	46.8	106.7
Pension liability	29	534.3	541.7
Trade and other payables	24	17.7	17.6
		1,089.2	1,220.2
Total liabilities		1,652.5	1,767.4
Net assets		1,695.0	1,407.3
EQUITY			
Share capital	25	133.7	133.7
Share premium	26	207.7	207.7
Retained earnings	26	1,383.5	1,088.6
Currency translation reserve	26	(3.1)	4.7
Other reserves	26	(36.3)	(38.2)
Equity attributable to equity holders of the parent		1,685.5	1,396.5
Non-controlling interest		9.5	10.8
Total equity		1,695.0	1,407.3

Nicholas Cadbury
Finance Director



15 August 2014

Consolidated cash flow statement

Year ended 27 February 2014

		Year to 27 February 2014 £m	Year to 28 February 2013* £m
	Notes		
Profit for the year		320.2	265.5
Adjustments for:			
Taxation charged on total operations	9	22.6	60.1
Net finance cost	8	49.9	59.6
Total income from joint ventures	14	(1.6)	(0.5)
Total income from associate	15	(0.9)	(0.8)
Loss / (gain) on disposal of property, plant and equipment and property reversions	6	11.7	(18.6)
Loss on investment and disposal of business	6	-	3.3
Depreciation and amortisation	11,12	152.5	128.4
Impairment of property, plant and equipment and intangibles	11,12	20.2	5.4
Share-based payments	28	10.6	9.2
Other non-cash items		7.0	4.1
Cash generated from operations before working capital changes		592.2	515.7
Increase in inventories		(4.2)	(3.3)
Increase in trade and other receivables		(25.5)	(17.4)
Increase in trade and other payables		45.1	38.4
Payments against provisions	21	(5.1)	(6.3)
Pension payments	29	(71.2)	(45.7)
Cash generated from operations		531.3	481.4
Interest paid		(19.8)	(26.6)
Corporation taxes paid		(81.4)	(46.7)
Net cash flows from operating activities		430.1	408.1
Cash flows from investing activities			
Purchase of property, plant and equipment		(286.3)	(329.3)
Purchase of intangible assets		(19.9)	(14.3)
Proceeds from disposal of property, plant and equipment		1.0	51.0
Business combinations, net of cash acquired		-	(0.7)
Sale of business		-	(0.2)
Movement in funding of parent company		(54.4)	(71.6)
Capital contributions and loans to joint ventures		(1.6)	(4.8)
Dividends from associate		0.7	0.7
Interest received		0.7	0.4
Net cash flows from investing activities		(359.8)	(368.8)
Cash flows from financing activities			
Cost of purchasing ESOT shares		(6.8)	(8.3)
Capital contributions from non-controlling interests		4.0	5.9
Decrease in short-term borrowings		(9.0)	(4.5)
Repayments of long-term borrowings		(54.9)	(32.0)
Renegotiation costs of long-term borrowings		(1.7)	-
Net cash flows from financing activities		(68.4)	(38.9)
Net increase in cash and cash equivalents		1.9	0.4
Opening cash and cash equivalents		40.8	39.6
Foreign exchange differences		(1.3)	0.8
Closing cash and cash equivalents shown within current assets on the balance sheet	18	41.4	40.8

* Restated for the impact of IAS 19 (revised 2011), see Note 2.

Notes to the consolidated financial statements

At 27 February 2014

1 Authorisation of consolidated financial statements

The consolidated financial statements of Whitbread Group PLC for the year ended 27 February 2014, were authorised for issue by the Board of Directors on 15 August 2014. Whitbread Group PLC is a public limited company incorporated and fully domiciled in England and Wales. The Company's ordinary shares are traded on the London Stock Exchange.

The significant activities of the Group are described in Note 4, Segment information.

2 Accounting policies

Basis of accounting and preparation

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

The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest hundred thousand except when otherwise indicated. The significant accounting policies adopted are set out below.

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the consolidated financial statements for the year ended 27 February 2014, except as follows:

IAS 19 Employee Benefits (Amendment)

IAS 19 (revised 2011) has been applied retrospectively from 2 March 2012 and comparatives have been restated for the impact of its adoption. The standard replaces interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net pension liability. In addition, certain administration costs in relation to the scheme, which were previously recognised as a reduction to the expected return on assets, are now recognised as an operating expense.

The impact of the adoption of IAS 19 (revised 2011) on the consolidated income statement, consolidated statement of comprehensive income and the calculation of earnings per share for each year was as follows:

	2013/14	2012/13
	£m	£m
Impact on the consolidated income statement		
Operating costs	2.5	3.1
Net financing costs	14.8	9.0
Net decrease in profit before tax	17.3	12.1
Analysed as:		
Decrease in underlying profit before tax	2.5	3.1
IAS 19 income statement charge for pension finance cost	14.8	9.0
Decrease in profit before tax	17.3	12.1
Underlying tax expense	(0.6)	(0.7)
Exceptional tax and tax on non GAAP adjustments	(3.4)	(2.2)
Decrease in tax expense	(4.0)	(2.9)
Net decrease in profit for the year	13.3	9.2
	2013/14	2012/13
	£m	£m
Impact on the consolidated statement of comprehensive income		
Decrease in profit for the year	(13.3)	(9.2)
Re-measurement gain on defined benefit pension scheme	17.3	12.1
Deferred tax on pensions	(4.0)	(2.9)
Increase in other comprehensive income for the year, net of tax	13.3	9.2
Net movement in total comprehensive income	-	-

Notes to the consolidated financial statements

At 27 February 2014

2 Accounting policies (continued)**Basis of accounting and preparation (continued)**

Impact on earnings per share (EPS)	2013/14 pence	2012/13 pence
Basic on profit for the year	7.42	5.18
Exceptional items - gross	-	-
Exceptional items - taxation	-	-
Exceptional items - non-controlling interest	-	-
Basic on profit before exceptional items for the year	7.42	5.18
Non GAAP adjustments - gross	(8.26)	(5.07)
Non GAAP adjustments - taxation	1.90	1.24
Basic on underlying profit for the year	1.06	1.35
Diluted on profit for the year	7.34	5.14
Diluted on profit before exceptional items for the year	7.34	5.14
Diluted on underlying profit for the year	1.05	1.34

In addition, the above decreases to profit and increases to other comprehensive income, have impacted the consolidated statement of changes in equity and the reconciliation of operating profit to cash generated from operating activities (see consolidated cash flow statement) for both financial years. There were no impacts on the consolidated balance sheet.

IFRS 13 Fair Value Measurement

The standard establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. Application of IFRS 13 has not materially impacted the fair value measurements in the consolidated financial statements of the Group.

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

- IAS 1 *Presentation of items of Other Comprehensive Income*;
- IFRS 7 *Offsetting financial assets and liabilities*; and
- the IASB's annual improvement process, 2009-2011.

Basis of consolidation

The consolidated financial statements incorporate the accounts of Whitbread Group PLC and all its subsidiaries, together with the Group's share of the net assets and results of joint ventures and associates incorporated using the equity method of accounting. These are adjusted, where appropriate, to conform to Group accounting policies. The financial statements of material subsidiaries are prepared for the same reporting year as the parent Company.

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

Significant accounting policies**Goodwill**

Goodwill arising on acquisition is capitalised and represents the excess of the fair value of consideration over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, at the date of acquisition. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognised outside of goodwill if the asset is separable, or arises from contractual or other legal rights, and its fair value can be measured reliably.

Amortisation is calculated on a straight-line basis over the estimated life of the asset as follows:

- trading licences have an infinite life;
- brand assets are amortised over 15 years;
- IT software and technology is amortised over periods of three to ten years;
- the asset in relation to acquired customer relationships is amortised over 15 years; and
- operating rights agreements are amortised over the life of the contract

The carrying values are reviewed for impairment if events or changes in circumstances indicate that they may not be recoverable.

Notes to the consolidated financial statements

At 27 February 2014

2 Accounting policies (continued)

Property, plant and equipment

Prior to the 1999/2000 financial year, properties were regularly revalued on a cyclical basis. Since this date, the Group policy has been not to revalue its properties and, whilst previous valuations have been retained, they have not been updated. As permitted by IFRS 1, the Group has elected to use the UK GAAP revaluations before the date of transition to IFRS as deemed cost at the date of transition. Property, plant and equipment are stated at cost or deemed cost at transition to IFRS, less accumulated depreciation and any impairment in value. Gross interest costs incurred on the financing of qualifying assets are capitalised until the time that the projects are available for use. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

freehold land is not depreciated;

freehold and long leasehold buildings are depreciated to their estimated residual values over periods up to 50 years; and

plant and equipment is depreciated over three to 30 years.

The carrying values of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that their carrying values may not be recoverable. Any impairment in the values of property, plant and equipment is charged to the income statement.

Profits and losses on disposal of property, plant and equipment reflect the difference between net selling price and the carrying amount at the date of disposal and are recognised in the income statement.

Payments made on entering into, or acquiring, leaseholds that are accounted for as operating leases represent prepaid lease payments. These are amortised on a straight-line basis over the lease term.

Impairment

The Group assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes, at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (cash generating units or CGUs). If such indication of impairment exists, or when annual impairment testing for an asset group is required, the Group makes an estimate of the recoverable amount.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the CGU's recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in the income statement. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's carrying amount, less any residual value, on a straight-line basis over its remaining useful life.

The recoverable amount of an asset or CGU is the greater of its fair value, less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined with reference to the CGU to which the asset belongs. Impairment losses are recognised in the income statement in operating costs.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its estimated recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of other assets in the CGU, on a pro-rata basis.

For the purposes of impairment testing, all centrally held assets are allocated in line with IAS 36 to CGUs based on management's view of the consumption of the asset. Any resulting impairment is recorded against the centrally held asset.

Goodwill and intangibles

Goodwill acquired through business combinations is allocated to groups of CGUs at the level management monitor goodwill, which is at strategic business unit level. The Group performs an annual review of its goodwill to ensure that its carrying amount is not greater than its recoverable amount. In the absence of a comparable recent market transaction that demonstrates that the fair value, less the costs of disposal, of goodwill and intangible assets exceeds their carrying amount, the recoverable amount is determined from value in use calculations. An impairment is then made to reduce the carrying amount to the higher of the fair value less the costs of disposal and the value in use.

Property, plant and equipment

For the purposes of the impairment review of property, plant and equipment, the Group considers each trading outlet to be a separate CGU.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Consideration is also given, where appropriate, to the market value of the asset, either from independent sources, or in conjunction with, an accepted industry valuation methodology.

Investments in joint ventures and associates

The Group assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication of impairment exists, the carrying amount of the investment is compared with its recoverable amount, being the higher of its fair value less costs of disposal and value in use. Where the carrying amount exceeds the recoverable amount, the investment is written down to its recoverable amount.

Notes to the consolidated financial statements

At 27 February 2014

2 Accounting policies (continued)

Assets held for sale

Non-current assets and disposal groups are classified as held for sale only if available for immediate sale in their present condition and a sale is highly probable and expected to be completed within one year from the date of classification. Such assets are measured at the lower of carrying amount and fair value, less the cost to sell, and are not depreciated or amortised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the basis of first in, first out and net realisable value is the estimated selling price less any costs of disposal.

Provisions

Provisions for warranties, onerous contracts and restructuring costs are recognised: when the Group has a present legal or constructive obligation as a result of a past event; when it is probable that an outflow of resources will be required to settle the obligation; and when a reliable estimate can be made of the amount of the obligation.

Provisions are discounted to present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amortisation of the discount is recognised as a finance cost.

Non GAAP performance measure

The face of the income statement presents underlying profit before tax and reconciles this to profit before tax as required to be presented under the applicable accounting standards. Underlying earnings per share is calculated having adjusted profit after tax on the same basis. The term underlying profit is not defined under IFRSs and may not be comparable with similarly titled profit measures reported by other companies. It is not intended to be a substitute for, or superior to, GAAP measurements of profit. The adjustments made to reported profit in the income statement, in order to present an underlying performance measure, include:

Exceptional items

The Group includes in non GAAP performance measures those items which are exceptional by virtue of their size or incidence so as to allow a better understanding of the underlying trading performance of the Group. The Group also includes the profit or loss on disposal of property, plant and equipment, property reversions, profit or loss on the sale of a business, impairment and exceptional interest and tax;

IAS 19 income statement finance charge/credit for defined benefit pension schemes

Underlying profit excludes the finance cost/revenue element of IAS 19;

Amortisation charge on acquired intangible assets

Underlying profit excludes the amortisation charge on acquired intangible assets; and

Taxation

The tax impact of the above items is also excluded in arriving at underlying earnings.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange quoted at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency, are translated using the exchange rates as at the dates of the initial transactions.

Trading results are translated into the functional currency (generally sterling) at average rates of exchange for the year. Day-to-day transactions in a foreign currency are recorded in the functional currency at an average rate for the month in which those transactions take place, which is used as a reasonable approximation to the actual transaction rate. Translation differences on monetary items are taken to the income statement. The differences that arise from translating the results of foreign entities at average rates of exchange, and their assets and liabilities at closing rates, are also dealt with in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement. All other currency gains and losses are dealt with in the income statement.

A number of subsidiaries within the Group have a non-sterling functional currency. The financial performance and end position of these entities are translated into sterling in the consolidated financial statements. Balance sheet items are translated at the rate applicable at the balance sheet date. Transactions reported in the income statement are translated using an average rate for the month in which they occur.

Notes to the consolidated financial statements

At 27 February 2014

2 Accounting policies (continued)

Revenue recognition

Revenue is recognised when the significant risks and rewards of the goods or services provided have transferred to the buyer, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group.

Revenue is measured at the fair value of the consideration receivable from the sale of goods and services to third parties after deducting discounts, allowances for customer loyalty and other promotional activities. Revenue includes duties which the Group pays as principal, but excludes amounts collected on behalf of other parties, such as value added tax. All sales between Group businesses are eliminated on consolidation.

Revenue of the Group comprises the following streams:

Sale of goods

Revenue from the sale of food, beverages and merchandise is recognised at the point of sale, with the exception of wholesale transactions which are recognised on delivery;

Rendering of services

Revenue from the room sales and other guest services is recognised when rooms are occupied and as services are provided;

Franchise fees

Revenue from fees received in connection with the franchise of the Group's brand names is recognised when earned;

Customer loyalty programmes

Where award credits are granted as part of a sales transaction, a portion of revenue equal to the fair value of the reward points earned is deferred until redemption. The fair value of points awarded is determined with reference to the discount received upon redemption and the level of redemption; and

Finance revenue

Interest income is recognised as the interest accrues, using the effective interest method.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental payments in respect of operating leases are charged against operating profit on a straight-line basis over the period of the lease. Lease incentives are recognised as a reduction of rental costs over the lease term.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except for gross interest costs incurred on the financing of major projects, which are capitalised until the time that the projects are available for use.

Retirement benefits

In respect of the defined benefit pension scheme, the obligation recognised in the balance sheet represents the present value of the defined benefit obligation, reduced by the fair value of the scheme assets. The cost of providing benefits is determined using the projected unit credit actuarial valuation method. Re-measurements are recognised in full in the period in which they occur in the statement of comprehensive income and are not reclassified to the income statement in subsequent periods.

For defined benefit plans, the employer's portion of the past and current service cost is charged to operating profit, with net interest costs reported within finance costs. In addition, all administration costs, other than those relating to the management of plan assets or taxes payable by the plan itself, are charged as incurred to operating costs in the income statement. Net interest is calculated by applying the opening discount rate to the opening net defined benefit obligation taking into account the expected contributions and benefits paid.

Curtailments and settlements relating to the Group's defined benefit plan are recognised in the period in which the curtailment or settlement occurs.

Payments to defined contribution pension schemes are charged as an expense as they fall due.

Share-based payment transactions

Equity-settled transactions

Certain employees and directors of the Group receive equity-settled remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares. The cost of equity-settled transactions with employees is measured by reference to the fair value, determined using a stochastic model, at the date at which they are granted. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions or non-vesting conditions are fulfilled, ending on the relevant vesting date. Except for awards subject to market-related conditions for vesting, the cumulative expense recognised for equity-settled transactions, at each reporting date until the vesting date, reflects the extent to which the vesting period has expired, and is adjusted to reflect the directors' best available estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. If options are subject to market-related conditions, awards are not cumulatively adjusted for the likelihood of these targets being met. Instead, these conditions are included in the fair value of the awards.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. Where an equity-settled award is forfeited, the related expense recognised to date is reversed.

Cash-settled transactions

The cost is fair-valued at grant date and expensed over the period until the vesting date, with a recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date, up to and including the settlement date, with changes in fair value recognised in the income statement for the period.

Notes to the consolidated financial statements

At 27 February 2014

2 Accounting policies (continued)

Tax

The income tax charge represents both the income tax payable, based on profit for the year and deferred income tax.

Deferred income tax is recognised in full, using the liability method, in respect of temporary differences between the tax base of the Group's assets and liabilities and their carrying amounts, that have originated but have not been reversed by the balance sheet date. No deferred tax is recognised if the temporary difference arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Deferred income tax is recognised in respect of taxable temporary differences associated with investments in associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all, or part of, the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are charged or credited directly to equity. Otherwise, income tax is recognised in the income statement.

Investments in joint ventures and associates

Joint ventures are established through an interest in a company (a jointly-controlled entity).

Investments in joint ventures and associates are initially recognised at cost, being the fair value of the consideration given, including acquisition charges associated with the investment.

After initial recognition, investments in joint ventures and associates are accounted for using the equity method.

Recognition and derecognition of financial assets and liabilities

The recognition of financial assets and liabilities occurs when the Group becomes party to the contractual provisions of the instrument. The derecognition of financial assets takes place when the Group no longer has the right to cash flows, the risks and rewards of ownership, or control of the asset. The derecognition of financial liabilities occurs when the obligation under the liability is discharged, cancelled or expires.

Financial Assets

Financial assets at fair value through profit or loss

Some assets held by the Group are classified as financial assets at fair value through profit or loss. On initial recognition these assets are recognised at fair value. Subsequent measurement is also at fair value, with changes recognised through finance revenue or costs in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Trade receivables are recognised and carried at original invoice amount less any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Notes to the consolidated financial statements

At 27 February 2014

2 Accounting policies (continued)

Derivative financial instruments

The Group enters into derivative transactions with a view to managing interest and currency risks associated with underlying business activities and the financing of those activities. Derivative financial instruments used by the Group are stated at fair value on initial recognition and at subsequent balance sheet dates. Cash flow hedges mitigate exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction. Fair value hedges mitigate exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment and include foreign currency swaps.

Hedge accounting is only used where, at the inception of the hedge, there is formal designation and documentation of the hedging relationship, it meets the Group's risk management objective strategy for undertaking the hedge and it is expected to be highly effective.

The fair value of derivative instruments is calculated by discounting all future cash flows by the applicable market yield curves at the balance sheet date.

The portion of any gains or losses on cash flow hedges which meet the conditions for hedge accounting and are determined to be effective, is recognised directly in the statement of comprehensive income. The gains or losses relating to the ineffective portion are recognised immediately in the income statement.

The change in fair value, of derivatives designated as part of a fair value hedge, is recognised in the income statement in finance costs. The change in the fair value of the hedged asset or liability, that is attributable to the hedged risk, is also recognised in the income statement within finance costs.

When a firm commitment that is hedged becomes an asset or a liability recognised on the balance sheet, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the transaction that results from a firm commitment that is hedged affects the income statement.

Gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting, are recognised immediately in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that point in time, for cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement. When a fair value hedge item is derecognised, the unamortised fair value is recognised immediately in the income statement.

Borrowings

Borrowings are initially recognised at the fair value of the consideration received, net of any directly associated issue costs. Borrowings are subsequently recorded at amortised cost, with any difference between the amount initially recorded and the redemption value, recognised in the income statement using the effective interest method.

Significant accounting judgements and estimates

Key assumptions concerning the future, and other key sources of estimation uncertainty, at the balance sheet date, have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The main assumptions and sources of estimation uncertainty are outlined below:

- an impairment test of tangible and intangible assets is undertaken each year on both an EBITDA multiple approach and a discounted cash flow approach. Note 13 describes the assumptions used together with an analysis of the sensitivity to changes in key assumptions;

- judgement involving estimates is used in determining the value of provisions carried for onerous contracts. This is primarily based around assumptions on rent and property-related costs for the period the property is vacant and then assumptions over future rental incomes or potential reverse lease premiums paid. Note 21 provides details of the value of the provisions carried;

- defined benefit pension plans are accounted for in accordance with actuarial advice using the projected unit credit method. Note 29 describes the assumptions used together with an analysis of the sensitivity to changes in key assumptions; and

- the calculation of the Group's total tax charge necessarily involves a degree of estimation and judgement in respect of certain items, where the tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority. The final resolution of some of these items may give rise to material income statement and/or cash flow variances.

Corporation tax is calculated on the basis of income before taxation, taking into account the relevant local tax rates and regulations. For each operating entity, the current income tax expense is calculated and differences between the accounting and tax base are determined, resulting in deferred tax assets or liabilities.

Assumptions are also made around the assets which qualify for capital allowances and the level of disallowable expenses and this affects the income tax calculation. Provisions may be made for uncertain exposures or recoveries, which can have an impact on both deferred and current tax.

Assumptions are also made around the tax net book value of assets to which capital allowances apply, the level of capital allowances, the extent of rollover gains, indexation thereon and the tax base into which they have been rolled.

A deferred tax asset shall be recognised for the carry forward of unused tax losses, pension deficits and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Detailed amounts of the carrying value of corporation and deferred tax can be found in Note 9.

Notes to the consolidated financial statements

At 27 February 2014

2 Accounting policies (continued)

Standards issued by the International Accounting Standards Board (IASB) not effective for the current year and not early adopted by the Group

The following standards and interpretations, which have been issued by the IASB and are relevant for the Group, subject to EU ratification, become effective after the current year-end and have not been early adopted by the Group:

Amendments to IAS 36: Recoverable Amount Disclosures for Non-Financial Assets

This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal and is effective for annual periods beginning on or after 1 January 2014. The impact on the Group is on disclosure in the consolidated financial statements only;

IFRS 9 Financial Instruments

IFRS 9 'Financial instruments' was first issued in November 2009 and has since been amended several times. The standard will eventually replace IAS 39 and covers the classification, measurement and derecognition of financial assets and financial liabilities, together with a new hedge accounting model. The IASB intends to expand IFRS 9 to add new requirements for impairment and for it to become a complete replacement of IAS 39 for periods beginning on or after 1 January 2018. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued; and

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests, where they are material, in subsidiaries, joint arrangements, associates and structured entities. The impact on the Group is on disclosure in the consolidated financial statements only, where summarised information may need to be provided. The standard becomes effective for annual periods beginning on or after 1 January 2014*.

Whilst the following standards and interpretations are relevant to the Group, they have been assessed as having no financial impact or additional disclosure requirements at this time*:

- IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011);
- IAS 32 *Offsetting Financial Assets and Financial Liabilities* - Amendments to IAS 32;
- IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* - Amendments to IAS 39;
- IFRIC Interpretation 21 *Leases* (IFRIC 21);
- IFRS 10 *Consolidated Financial Statements*; and
- IFRS 11 *Joint Arrangements*;

* As the consolidated financial statements have been prepared in accordance with IFRSs as adopted by the European Union, the adoption date is as per the EU, not the IASB.

Notes to the consolidated financial statements

At 27 February 2014

3 Revenue

An analysis of the Group's revenue is as follows:

	2013/14 £m	2012/13 £m
Rendering of services	967.9	853.8
Franchise fees	25.6	22.2
Sale of goods	1,300.8	1,154.0
Revenue	2,294.3	2,030.0

4 Segment information

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

- Hotels & Restaurants provide services in relation to accommodation and food; and
- Costa generates income from the operation of its branded, owned and franchised coffee outlets

The UK and International Hotels & Restaurants segments have been aggregated on the grounds that the International segment is immaterial.

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

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

The following tables present revenue and profit information and certain asset and liability information regarding business operating segments for the years ended 27 February 2014 and 28 February 2013.

	Hotels & Restaurants £m	Costa £m	Unallocated and elimination £m	Total operations £m
Year ended 27 February 2014				
Revenue				
Underlying revenue from external customers	1,494.0	804.9	-	2,298.9
Inter-segment revenue	-	2.8	(2.8)	-
Exceptional revenue	(4.6)	-	-	(4.6)
Total revenue	1,489.4	807.7	(2.8)	2,294.3
Underlying operating profit before exceptional items	348.1	109.8	(26.0)	431.9
Underlying interest	-	-	(24.3)	(24.3)
Underlying profit before tax	348.1	109.8	(50.3)	407.6
Amortisation of acquired intangibles	-	(2.7)	-	(2.7)
IAS 19 income statement charge for pension finance cost	-	-	(23.6)	(23.6)
Profit before tax and exceptional items	348.1	107.1	(73.9)	381.3
Exceptional items:				
VAT on gaming machine income	(4.6)	-	-	(4.6)
Net loss on disposal of property, plant and equipment and property reversions	(1.2)	(3.7)	(6.8)	(11.7)
Impairment	(15.5)	(10.6)	-	(26.1)
Impairment reversal	5.4	0.5	-	5.9
Exceptional interest	-	-	(2.0)	(2.0)
Profit before tax	332.2	93.3	(82.7)	342.8
Tax expense				(22.6)
Profit for the year				320.2
Assets and liabilities				
Segment assets	2,914.5	350.9	-	3,265.4
Unallocated assets	-	-	82.1	82.1
Total assets	2,914.5	350.9	82.1	3,347.5
Segment liabilities	(293.0)	(79.5)	-	(372.5)
Unallocated liabilities	-	-	(1,280.0)	(1,280.0)
Total liabilities	(293.0)	(79.5)	(1,280.0)	(1,652.5)
Net assets	2,621.5	271.4	(1,197.9)	1,695.0

Notes to the consolidated financial statements

At 27 February 2014

4 Segment information (continued)**Other segment information**

Share of profit from associate	0.9	-	-	0.9
Share of profit / (loss) from joint ventures	2.2	(0.6)	-	1.6
Total property rent (Note 5)	89.0	92.5	0.2	181.7
Capital expenditure:				
Property, plant and equipment – cash basis	214.2	72.0	0.1	286.3
Property, plant and equipment – accruals basis	245.1	71.6	-	316.7
Intangible assets	16.9	2.2	0.8	19.9
Depreciation	(94.8)	(48.5)	-	(143.3)
Amortisation	(4.9)	(3.8)	(0.5)	(9.2)
	Hotels & Restaurants	Costa	Unallocated and elimination	Total operations
	£m	£m	£m	£m
Year ended 28 February 2013*				
Revenue				
Underlying revenue from external customers	1,360.1	669.9	-	2,030.0
Inter-segment revenue	-	2.5	(2.5)	-
Exceptional revenue	-	-	-	-
Total revenue	1,360.1	672.4	(2.5)	2,030.0
Underlying operating profit before exceptional items	313.1	90.1	(25.1)	378.1
Underlying interest	-	-	(32.5)	(32.5)
Underlying profit before tax	313.1	90.1	(57.6)	345.6
Amortisation of acquired intangibles	-	(2.8)	-	(2.8)
IAS 19 income statement charge for pension finance cost	-	-	(27.0)	(27.0)
Profit before tax and exceptional items	313.1	87.3	(84.6)	315.8
Exceptional items:				
Net gain/(loss) on disposal of property, plant and equipment and property reversions	19.5	(1.1)	0.2	18.6
Impairment	(13.6)	(1.7)	-	(15.3)
Impairment reversal	9.7	0.2	-	9.9
Loss on investment	-	(1.4)	-	(1.4)
Sale of business	-	(1.9)	-	(1.9)
Exceptional interest	-	-	(0.1)	(0.1)
Profit before tax	328.7	81.4	(84.5)	325.6
Tax expense				(60.1)
Profit for the year				265.5
Assets and liabilities				
Segment assets	2,755.6	329.0	-	3,084.6
Unallocated assets	-	-	90.1	90.1
Total assets	2,755.6	329.0	90.1	3,174.7
Segment liabilities	(233.1)	(69.1)	-	(302.2)
Unallocated liabilities	-	-	(1,465.2)	(1,465.2)
Total liabilities	(233.1)	(69.1)	(1,465.2)	(1,767.4)
Net assets	2,522.5	259.9	(1,375.1)	1,407.3
Other segment information				
Share of profit from associate	0.8	-	-	0.8
Share of profit / (loss) from joint ventures	0.9	(0.4)	-	0.5
Total property rent (Note 5)	70.0	80.2	0.2	150.4
Capital expenditure:				
Property, plant and equipment – cash basis	252.6	76.7	-	329.3
Property, plant and equipment – accruals basis	247.2	79.6	-	326.8
Intangible assets	8.7	3.4	2.2	14.3
Depreciation	(81.9)	(38.4)	-	(120.3)
Amortisation	(4.6)	(3.5)	-	(8.1)

* Restated for the impact of IAS 19 (revised 2011), see Note 2

Notes to the consolidated financial statements

At 27 February 2014

4 Segment information (continued)

	2013/14	2012/13
	£m	£m
Revenues from external customers are split geographically as follows:		
United Kingdom *	2,211.8	1,965.8
Non United Kingdom	82.5	64.2
	2,294.3	2,030.0

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

Non-current assets** are split geographically as follows:

	2014	2013
	£m	£m
United Kingdom	3,084.6	2,931.6
Non United Kingdom	65.4	63.7
	3,150.0	2,995.3

** Non-current assets exclude derivative financial instruments

5 Group operating profit

This is stated after charging / (crediting):

	2013/14	2012/13*
	£m	£m
Cost of inventories recognised as an expense	304.5	269.3
Employee benefits expense (Note 7)	606.9	540.1
Operating lease payments net of sublease receipts	189.1	156.9
Amortisation of intangible assets (Note 11)	9.2	8.1
Depreciation of property, plant and equipment (Note 12)	143.3	120.3
Utilities, rates and other site property costs	517.3	462.6
Net foreign exchange differences	0.5	(0.5)
Other operating charges	101.4	99.2
Exceptional items (Note 6)	31.9	(9.9)
	1,904.1	1,646.1

* Restated for the impact of IAS 19 (revised 2011), see Note 2

	2013/14	2012/13
	£m	£m
Minimum lease payments attributable to the current period	169.0	141.9
IAS 17 - impact of future minimum rental uplifts	(0.2)	(1.5)
Minimum lease payments recognised as an operating expense	168.8	140.4
Contingent rents	12.9	10.0
Total property rent	181.7	150.4
Plant and machinery operating lease payments	8.8	9.2
Operating lease payments - sublease receipts	(1.4)	(2.7)
Total operating lease payments net of sublease receipts	189.1	156.9

Fees paid to the auditor during the period consisted of:

	2013/14	2012/13
	£m	£m
Audit of the consolidated financial statements	0.3	0.3
Audit of subsidiaries	0.2	0.2
Total audit fees	0.5	0.5
Non-audit services	0.1	-
Included in other operating charges	0.6	0.5

Notes to the consolidated financial statements

At 27 February 2014

6 Exceptional items and other non GAAP adjustments

	2013/14 £m	2012/13* £m
Exceptional items before tax and interest:		
Revenue		
VAT on gaming machine income ¹	(4.6)	-
Operating costs		
Net (loss) / gain on disposal of property, plant and equipment, and property reversions ²	(11.7)	18.6
Impairment of property, plant and equipment (Note 13)	(22.4)	(15.3)
Impairment reversal (Note 13)	5.9	9.9
Loss on investments ³	-	(1.4)
Impairment of other intangibles (Notes 11, 13)	(3.7)	-
Sale of businesses ⁴	-	(1.9)
Exceptional operating costs	(31.9)	9.9
Exceptional items before interest and tax	(36.5)	9.9
Exceptional interest:		
Interest on exceptional tax ^{1,5}	(1.1)	1.0
Unwinding of discount rate on provisions ⁶	(0.9)	(1.1)
	(2.0)	(0.1)
Exceptional items before tax	(38.5)	9.8
Other non GAAP adjustments made to underlying profit before tax to arrive at reported profit before tax:		
Amortisation of acquired intangibles (Note 11)	(2.7)	(2.8)
IAS 19 income statement charge for pension finance cost (Note 29)	(23.6)	(27.0)
	(26.3)	(29.8)
Items included in reported profit before tax, but excluded in arriving at underlying profit before tax	(64.8)	(20.0)
	2013/14	2012/13
Tax adjustments included in reported profit after tax, but excluded in arriving at underlying profit after tax	£m	£m*
Tax on continuing exceptional items	5.6	1.3
Exceptional tax items - tax base cost ⁷	40.2	3.5
Deferred tax relating to UK tax rate change	18.6	16.8
Tax on non GAAP adjustments	6.1	7.2
	70.5	28.8

* Restated for the impact of IAS 19 (revised 2011), see Note 2

1 In the year ended 3 March 2011, the Group received a refund of VAT charged on gaming machine income of £4.6m together with some associated interest. HMRC appealed against the original ruling and the decision was overturned on 30 October 2013. Hence a liability has been booked this year for £4.6m of revenue and £1.1m of associated interest costs.

2 In 2013/14, a £6.8m provision has been raised, for previously sublet properties that have reverted back to Whitbread. In addition to this, a £4.9m loss on disposal was recorded mainly relating to Costa store closures in the international business. The non-controlling interest portion of this cost was £0.7m (2012/13: £nil). In 2012/13, a net gain of £18.6m was recognised on disposals of property, plant and equipment, the majority of which related to a sale and leaseback agreement for seven properties.

3 This represents the net loss on the sale of the joint venture in Rosworth Investments to the joint venture partner in 2012/13.

4 During the year ended 28 February 2013, Coffeeheaven Hungary was closed and subsequently liquidated. The costs incurred in this process were classed as loss on disposal of business.

5 This was the partial release of a provision in the prior year, of £13.5m, for an item which had been disputed by HMRC but has now been agreed. This interest amounted to a total of £10.8m, £1.0m of which was released in the prior year.

6 The interest arising from the unwinding of the discount rate within provisions is included in exceptional interest, reflecting the exceptional nature of the provisions created.

7 Reduction in deferred tax liability for differences between the tax deductible cost and accounts' residual value of assets.

Notes to the consolidated financial statements

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7 Employee benefits expense

	2013/14	2012/13
	£m	£m
Wages and salaries	559.1	501.6
Social security costs	40.3	33.6
Pension costs	7.5	4.9
	606.9	540.1

Included in wages and salaries is a share-based payments expense of £11.2m (2012/13: £9.5m), which arises from transactions accounted for as equity-settled and cash-settled share-based payments.

The average number of people directly employed in the business segments on a full-time equivalent basis was as follows:

	2013/14	2012/13
	Number	Number
Hotels & Restaurants	24,957	23,628
Costa	11,432	10,031
Unallocated	58	57
Total operations	36,447	33,716

Excluded from the above are employees of joint ventures and associated undertakings.

Directors' remuneration is disclosed below:

	2013/14	2012/13
	£m	£m
Directors' remuneration	3.8	3.1
Aggregate contributions to the defined contribution pension scheme	0.1	0.1
Aggregate gains on the exercise of share options	6.9	1.0

	2013/14	2012/13
	No.	No.
Number of directors accruing benefits under defined contribution schemes	3	3

8 Finance (costs)/revenue

	2013/14	2012/13*
	£m	£m
Finance costs		
Bank loans and overdrafts	(20.9)	(26.5)
Other loans	(0.4)	(0.6)
Interest payable to parent company	(5.4)	(8.9)
Interest capitalised (Note 12)	2.6	2.7
	(24.1)	(33.3)
Impact of ineffective portion of cash flow and fair value hedges	(0.9)	-
Net pension finance cost (Note 29)	(23.6)	(27.0)
Finance costs before exceptional items	(48.6)	(60.3)
Exceptional finance costs	(1.1)	-
Unwinding of discount rate on provisions (Note 21)	(0.9)	(1.1)
Total finance costs	(50.6)	(61.4)
Finance revenue		
Bank interest receivable	0.1	0.1
Other interest receivable	0.6	0.3
	0.7	0.4
Impact of ineffective portion of cash flow and fair value hedges	-	0.4
Finance revenue before exceptional items	0.7	0.8
Exceptional finance revenue	-	1.0
Total finance revenue	0.7	1.8

* Restated for the impact of IAS 19 (revised 2011), see Note 2

Notes to the consolidated financial statements

At 27 February 2014

9 Taxation

	2013/14 £m	2012/13* £m
Consolidated income statement		
Current tax:		
Current tax expense	99.1	87.8
Adjustments in respect of previous periods	(4.6)	(1.7)
	94.5	86.1
Deferred tax:		
Origination and reversal of temporary differences	(13.0)	(6.7)
Adjustments in respect of previous periods	(40.3)	(2.5)
Change in UK tax rate to 20% (2012/13: 23%)	(18.6)	(16.8)
	(71.9)	(26.0)
Tax reported in the consolidated income statement	22.6	60.1
Consolidated statement of comprehensive income		
Current tax:		
Pensions	(14.4)	(9.0)
Deferred tax:		
Cash flow hedges	0.3	2.0
Pensions	5.7	19.0
Change in UK tax rate to 20% (2012/13: 23%) - pensions	11.8	8.5
Change in UK tax rate to 20% (2012/13: 23%) - cash flow hedges	0.5	0.5
Tax reported in other comprehensive income	3.9	21.0

A reconciliation of the tax charge applicable to underlying profit before tax and profit before tax at the statutory tax rate, to the actual tax charge at the Group's effective tax rate, for the years ended 27 February 2014 and 28 February 2013 respectively is as follows:

	2013/14		2012/13*	
	Tax on underlying profit £m	Tax on profit £m	Tax on underlying profit £m	Tax on profit £m
Profit before tax as reported in the consolidated income statement	407.6	342.8	345.6	325.6
Tax at current UK tax rate of 23.08% (2012/13: 24.17%)	94.1	79.1	83.6	78.7
Effect of different tax rates and unrecognised losses in overseas companies	3.8	6.2	2.9	2.9
Effect of joint ventures and associate	(0.6)	(0.6)	(0.3)	(1.2)
Expenditure not allowable	0.5	1.4	3.2	0.7
Adjustments to current tax expense in respect of previous years	(4.6)	(4.6)	(1.5)	(1.7)
Adjustments to deferred tax expense in respect of previous years ¹	(0.1)	(40.3)	1.0	(2.5)
Impact of change in tax rate on deferred tax balance	-	(18.6)	-	(16.8)
Tax expense reported in the consolidated income statement	93.1	22.6	88.9	60.1

The corporation tax balance is a liability of £34.1m (2013: liability of £35.8m)

¹ The £40.3m in the current year includes a £40.2m exceptional item which is disclosed in Note 6.

Notes to the consolidated financial statements

At 27 February 2014

9 Taxation (continued)**Deferred tax**

Deferred tax relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2014	2013	2013/14	2012/13*
	£m	£m	£m	£m
Deferred tax liabilities				
Accelerated capital allowances	50.3	57.8	(7.5)	(4.9)
Rolled over gains and property revaluations	85.0	146.8	(59.0)	(18.1)
Gross deferred tax liabilities	135.3	204.6		
Deferred tax assets				
Pensions	(78.7)	(92.2)	(4.0)	(2.4)
Other	(10.8)	(5.7)	(1.4)	(0.6)
Gross deferred tax assets	(89.5)	(97.9)		
Deferred tax expense			(71.9)	(26.0)
Net deferred tax liability	45.8	106.7		

* Restated for the impact of IAS 19 (revised 2011), see Note 2

Total deferred tax liabilities released as a result of disposals during the year was £nil (2013: £0.2m).

The Group has incurred overseas tax losses which, subject to any local restrictions, can be carried forward and offset against future taxable profits in the companies in which they arose. The Group carries out an annual assessment of the recoverability of these losses and does not think it appropriate at this stage to recognise any deferred tax asset. If the Group were to recognise these deferred tax assets in their entirety, profits would increase by £6.2m (2013: £6.8m), of which, the share attributable to the parent shareholders is £5.0m (2013: £5.4m).

The Group considers that the receipt of unremitted earnings from overseas entities would be exempt from UK tax and therefore the temporary difference in relation to unremitted earnings is £nil.

Tax relief on total interest capitalised amounts to £0.6m (2013: £0.7m).

Factors affecting the tax charge for future years

The Finance Act 2013 reduced the main rate of UK corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015. The effect of the new rate is to reduce the deferred tax provision by a net £7.0m, comprising a credit of £18.6m to the income statement, a charge of £12.3m to the statement of comprehensive income and a credit of £0.7m to reserves.

Notes to the consolidated financial statements

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10 Dividends paid

	2013/14 million	2012/13 million
Dividends paid during the year	-	-

11 Intangible assets

	Goodwill £m	Brand £m	Customer relationships £m	IT software and technology £m	Other £m	Total £m
Cost						
At 1 March 2012	176.8	5.6	5.9	64.9	4.2	257.4
Additions	0.7	-	-	11.7	2.6	15.0
Assets written off	-	(0.5)	-	(30.0)	(1.0)	(31.5)
Transfers	-	-	-	1.8	-	1.8
Foreign currency adjustment	0.1	-	-	-	-	0.1
At 28 February 2013	177.6	5.1	5.9	48.4	5.8	242.8
Additions	-	-	-	18.5	1.4	19.9
Assets written off	-	-	-	(3.1)	-	(3.1)
Transfers	-	-	-	0.2	0.5	0.7
Foreign currency adjustment	-	-	-	-	(0.1)	(0.1)
At 27 February 2014	177.6	5.1	5.9	64.0	7.6	260.2
Amortisation and impairment						
At 1 March 2012	-	(1.2)	(0.4)	(47.2)	(2.0)	(50.8)
Amortisation during the year	-	(0.3)	(0.6)	(6.9)	(0.3)	(8.1)
Transfers	-	0.5	-	30.0	1.0	31.5
At 28 February 2013	-	(1.0)	(1.0)	(24.1)	(1.3)	(27.4)
Amortisation during the year	-	(0.4)	(0.4)	(7.9)	(0.5)	(9.2)
Amortisation on assets written off	-	-	-	3.1	-	3.1
Impairment	-	(3.7)	-	-	-	(3.7)
At 27 February 2014	-	(5.1)	(1.4)	(28.9)	(1.8)	(37.2)
Net book value at 27 February 2014	177.6	-	4.5	35.1	5.8	223.0
Net book value at 28 February 2013	177.6	4.1	4.9	24.3	4.5	215.4

Included in the amortisation for the year is amortisation relating to acquired intangibles amounting to £2.7m (2012/13: £2.8m).

Notes to the consolidated financial statements

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11 Intangible assets (continued)

The carrying amount of goodwill allocated by segment is presented below:

	2014 £m	2013 £m
Hotels & Restaurants	112.6	112.6
Costa	65.0	65.0
Total	177.6	177.6

The carrying amount of goodwill at 27 February 2014 comprised £112.6m for Hotels & Restaurants and £65.0m for Costa. The Hotels & Restaurants CGU and the Costa CGU are also operating segments and represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

The brand intangible asset arose with the acquisition of Coffeeheaven in 2009/10. This has been impaired in 2013/14, as the Coffeeheaven stores are to be rebranded to Costa.

The customer relationships asset arose with the acquisition of Coffee Nation in a previous financial year. It is being amortised over a period of 15 years.

IT software and technology has been assessed as having finite lives and will be amortised under the straight-line method over periods ranging from three to ten years from the date the asset became fully operational.

Other intangibles

Other intangibles comprise Costa overseas trading licences and territory fees, and Costa Express operating rights agreements and development costs.

The trading licences, which have a carrying value of £1.8m (2013: £1.8m), are deemed to have infinite lives as there is no time limit associated with them. The operating rights agreements are being amortised between six years and ten years and have a carrying value of £2.0m (2013: £2.3m). Development costs have a carrying value of £1.7m (2013: £nil) and are being amortised over six years. The balance of £0.4m (2013: £0.4m) relates to territory fees which are being amortised over 20 years.

Capital expenditure commitments

Capital expenditure commitments in relation to intangible assets at the year-end amounted to £2.7m (2013: £2.6m).

12 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 March 2012	2,176.8	962.2	3,139.0
Additions	138.6	188.2	326.8
Interest capitalised	2.7	-	2.7
Reclassified	(3.5)	3.5	-
Assets written off	(51.4)	(59.8)	(111.2)
Foreign currency adjustment	(0.8)	1.5	0.7
Transfers	-	(1.8)	(1.8)
Movements to held for sale in the year	(6.9)	(0.6)	(7.5)
Disposals	(27.6)	(14.3)	(41.9)
At 28 February 2013	2,227.9	1,078.9	3,306.8
Additions	141.9	174.8	316.7
Interest capitalised	2.6	-	2.6
Assets written off	(2.4)	(82.9)	(85.3)
Foreign currency adjustment	(4.4)	(3.6)	(8.0)
Transfers	(0.5)	(0.2)	(0.7)
Movements to held for sale in the year	(6.0)	(1.3)	(7.3)
Disposals	(7.4)	(3.4)	(10.8)
At 27 February 2014	2,351.7	1,162.3	3,514.0

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At 27 February 2014

12 Property, plant and equipment (continued)

	Land and buildings £m	Plant and equipment £m	Total £m
Depreciation and impairment			
At 1 March 2012	(189.2)	(369.3)	(558.5)
Depreciation charge for the year	(13.4)	(106.9)	(120.3)
Reclassified	0.3	(0.3)	-
Impairment (Note 13)	(2.6)	(2.2)	(4.8)
Depreciation on assets written off	51.4	59.8	111.2
Foreign currency adjustment	-	(0.5)	(0.5)
Movements to held for sale in the year	5.1	0.3	5.4
Disposals	1.6	8.0	9.6
At 28 February 2013	(146.8)	(411.1)	(557.9)
Depreciation charge for the year	(14.9)	(128.4)	(143.3)
Impairment (Note 13)	(14.8)	(1.3)	(16.1)
Depreciation on assets written off	2.4	82.9	85.3
Foreign currency adjustment	0.6	1.4	2.0
Movements to held for sale in the year	2.0	0.6	2.6
Disposals	5.3	2.2	7.5
At 27 February 2014	(166.2)	(453.7)	(619.9)
Net book value at 27 February 2014	2,185.5	708.6	2,894.1
Net book value at 28 February 2013	2,081.1	667.8	2,748.9

There is a charge in favour of the pension scheme over properties with a market value of £408m. See Note 29 for further information.

A change in estimate of the useful lives of certain assets within the Hotels & Restaurants estate has been implemented in 2013/14 to bring them in line with the new refurbishment programme. This has led to an accelerated depreciation charge of £6.0m in 2013/14 and will have a £6.0m impact in 2014/15.

	2014 £m	2013 £m
Capital expenditure commitments		
Capital expenditure commitments for property, plant and equipment for which no provision has been made	52.3	50.1

In addition to the capital expenditure commitments disclosed above, the Group has also signed agreements with certain third parties to develop new trading outlets within the Hotels & Restaurants strategic business unit as part of its pipeline. These developments are dependent upon the outcome of future events, such as the granting of planning permission, and consequently, do not represent a binding capital commitment at the year-end. The directors consider that developments likely to proceed as planned will result in further capital investment of £210.0m over the next five years (2013: £177.5m).

Capitalised interest

Interest capitalised during the year amounted to £2.6m, using an average rate of 4.1% (2012/13: £2.7m, using an average rate of 4.5%).

Assets held for sale

During the year, certain property assets with a book value of £4.7m (2012/13: £2.1m) were reclassified as assets held for sale. Property assets sold during the year had a net book value of £4.3m (2012/13: £0.6m), and three trading sites with a combined net book value of £1.5m (2012/13: £1.5m) continued to be classified as held for sale at the year-end. An impairment loss of £0.4m (2012/13: £0.6m) was recognised in the year.

Notes to the consolidated financial statements

At 27 February 2014

13 Impairment

During the year impairment losses of £22.4m (2012/13: £15.3m) and impairment reversals of £5.9m (2012/13: £9.9m) were recognised.

	2013/14 Property, plant and equipment £m	2012/13 Property, plant and equipment £m
Impairment losses		
Hotels & Restaurants	15.5	13.6
Costa	6.9	1.7
Total impairment losses	22.4	15.3
Impairment reversals		
Hotels & Restaurants	(5.4)	(9.7)
Costa	(0.5)	(0.2)
Total impairment reversals	(5.9)	(9.9)
Total net impairment charge	16.5	5.4

Property, plant and equipment

The Group considers each trading site to be a CGU and each CGU is reviewed annually for indicators of impairment.

In assessing whether an asset has been impaired, the carrying amount of the CGU is compared to its recoverable amount. The recoverable amount is the higher of its fair value, less costs of disposal and its value in use. In the absence of any information about the fair value of a CGU, the recoverable amount is deemed to be its value in use.

The Group estimates value in use using a discounted cash flow model, which applies a pre-tax discount rate of 9.9% in the UK (2012/13: 9.1%), 10.6% in China (2012/13: 10.2%) and 11.1% in Poland (2012/13: 10.6%). The future cash flows are based on assumptions from the business plans and cover a five-year period. These business plans and forecasts include management's most recent view of medium-term trading prospects. Cash flows beyond this period are extrapolated using a growth rate based upon the relevant country's inflation target, ranging from 2.0% to 6.0% with the UK, the most significant country, being 2.0% (2012/13: 2.0%).

The events and circumstances that led to the impairment charge of £22.4m are set out below:

Hotels & Restaurants

The impairment of £15.5m at 14 sites in this strategic business unit was driven by a number of factors:

- changes in the local competitive environment in which the hotels are situated;
- decisions to exit some sites where current market values are lower than book values; and
- high asset prices in the market at the point of acquisition for acquired sites and also anticipated higher growth rates at that time than are now expected.

Costa

The £6.9m impairment charge includes, assets affected by the rebranding of Coffeeheaven to Costa, and three UK and 45 international sites, where stores are to be closed or are underperforming. The non-controlling interest portion of this cost was £0.7m (2012/13: £nil).

Impairment reversals

Following an improvement in trading performance and an increase in amounts of estimated future cash flows of previously impaired sites, reversals of £5.9m have been recognised, £5.4m in Hotels & Restaurants and £0.5m in Costa.

Sensitivity to changes in assumptions

The level of impairment is predominantly dependent upon judgements used in arriving at future growth rates and the discount rates applied to cash flow projections. The impact on the impairment charge of applying different assumptions to the growth rates used in the five-year business plans and in the pre-tax discount rates would be an incremental impairment charge of:

	Hotels & Restaurants £m	Costa £m	Total £m
Incremental impairment charge			
Impairment if business plan growth rates were reduced by 1%pt	5.7	-	5.7
Impairment if discount rates were increased by 1%pt	5.3	-	5.3

Goodwill

Goodwill acquired through business combinations is allocated to groups of CGUs at strategic business unit level, being the level at which management monitor goodwill.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In the absence of a recent market transaction the recoverable amount is determined from value in use calculations. The future cash flows are based on assumptions from the business plans and cover a five-year period. These business plans and forecasts include management's most recent view of medium-term trading prospects. Cash flows beyond this period are extrapolated using a 2.0% growth rate (2012/13: 2.0%). The pre-tax discount rate applied to cash flow projections is 9.9% (2012/13: 9.1%).

The resultant impairment review required no impairment of goodwill allocated to either the Hotels & Restaurants CGU or the Costa CGU.

Brand

The brand intangible arose upon the acquisition of the Coffeeheaven business. At the time, the stores were trading as Coffeeheaven branded stores. A decision has been taken to rebrand these stores to Costa and therefore the asset has been fully impaired by £3.7m (2012/13: £nil).

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At 27 February 2014

14 Investment in joint ventures

Principal joint ventures	Investment held by	Principal activity	Country of incorporation	2014	2013
Premier Inn Hotels LLC	PTI Middle East Limited	Hotels	United Arab Emirates	49.0	49.0
Hualian Costa (Beijing) Food & Beverage Management Company Limited	Costa Beijing Limited	Coffee shops	China	50.0	50.0
% equity interest					

The following table provides summarised information of the Group's investment in joint ventures:

Share of joint ventures' balance sheets		2014	2013
Current assets		£m	£m
Non-current assets		8.7	7.1
Share of gross assets		46.4	46.9
Current liabilities		55.1	54.0
Non-current liabilities		(5.4)	(4.6)
Share of gross liabilities		(27.1)	(27.9)
Loans to joint ventures		2.3	(32.5)
Share of net assets		24.9	24.0
Share of joint ventures' revenue and expenses		2013/14	2012/13
Revenue		£m	£m
Operating costs		21.5	17.3
Finance costs		(18.8)	(15.6)
Profit before tax		(1.1)	(1.2)
Tax		1.6	0.5
Net profit		1.6	0.5

At 27 February 2014, the Group's share of the capital commitments of its joint ventures amounted to £2.9m (2013: £5.5m).

15 Investment in associate

The associate is a private entity which is not listed on any public exchange and, therefore, there is no published quotation price for the fair value of this investment.

The following table provides summarised information of the Group's investment in the associated undertaking:

Share of associate's balance sheet		2014	2013
Current assets		£m	£m
Non-current assets		2.2	1.8
Share of gross assets		5.1	6.9
Current liabilities		7.3	(0.7)
Non-current liabilities		(4.6)	(4.7)
Share of gross liabilities		(5.3)	(5.2)
Share of net assets		2.0	1.7
Share of associate's revenue and profit		2013/14	2012/13
Revenue		£m	£m
Profit		2.9	2.7

16 Inventories		2014	2013
Raw materials and consumables (at cost)		£m	£m
Finished goods (at cost)		2.4	3.5
Total inventories at lower of cost and net realisable value		28.1	26.5

Notes to the consolidated financial statements

At 27 February 2014

17 Trade and other receivables

	2014 £m	2013 £m
Trade receivables	66.9	54.2
Prepayments and accrued income	46.5	39.0
Other receivables	16.7	14.2
	130.1	107.4
Analysed as:		
Current	124.1	102.1
Non-current - other receivables	6.0	5.3
	130.1	107.4

Trade and other receivables are non-interest bearing and are generally on 30 day terms.

The provision for impairment of receivables at 27 February 2014 was £2.8m (2013: £2.9m).

	2014 £m	2013 £m
The ageing analysis of trade receivables is as follows:		
Neither past due nor impaired	54.6	41.0
Less than 30 days	8.5	9.9
Between 30 and 60 days	2.8	1.9
Greater than 60 days	1.0	1.4
	66.9	54.2

18 Cash and cash equivalents

	2014 £m	2013 £m
Cash at bank and in hand	41.3	39.2
Short-term deposits	0.1	1.6
	41.4	40.8

Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group. They earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is £41.4m (2013: £40.8m).

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the following:

	2014 £m	2013 £m
Cash at bank and in hand	41.3	39.2
Short-term deposits	0.1	1.6
	41.4	40.8

19 Financial liabilities

	Maturity	Current		Non-current	
		2014 £m	2013 £m	2014 £m	2013 £m
Bank overdrafts	On demand	-	-	-	-
Short-term borrowings	On demand	-	9.0	-	-
		-	9.0	-	-
Unsecured					
Revolving credit facility (£650m)	2018	-	-	186.4	242.0
Private placement loan notes	2017 to 2022	-	-	246.6	260.9
Total		-	9.0	433.0	502.9

Short-term borrowings

Short-term borrowings are typically overnight borrowings, repayable on demand. Interest rates are variable and linked to LIBOR.

Revolving credit facility (£650m)

The revolving facility was entered into on 4 November 2011 and originally ran until November 2016. An extension has been agreed to take the loan to November 2018. Loans have variable interest rates linked to LIBOR. The facility is multi-currency.

Notes to the consolidated financial statements

At 27 February 2014

19 Financial liabilities (continued)*Private placement loan notes*

The Group holds loan notes with coupons and maturities as shown in the following table:

Title	Year issued	Principal value	Maturity	Coupon
Series A loan notes	2010	\$40.0m	13-Aug-17	4.55%
Series B loan notes	2010	\$75.0m	13-Aug-20	5.23%
Series C loan notes	2010	£25.0m	13-Aug-20	5.19%
Series A loan notes	2011	\$60.0m	26-Jan-19	3.92%
Series B loan notes	2011	\$56.5m	26-Jan-19	4.12%
Series C loan notes	2011	\$93.5m	26-Jan-22	4.86%
Series D loan notes	2011	£25.0m	06-Sep-21	4.89%

The Group entered into a number of cross-currency swap agreements in relation to the loan notes to eliminate any foreign exchange risk on interest rates or on the repayment of the principal borrowed. These swaps expire in line with the loan notes and are discussed in Note 23.

An analysis of the interest rate profile and the maturity of the borrowings, together with related interest rate swaps, is as follows:

	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
	£m	£m	£m	£m	£m
Year ended 27 February 2014					
Fixed rate	-	-	93.8	152.8	246.6
Fixed to floating rate swaps	-	-	-	(50.1)	(50.1)
Floating to fixed interest rate swaps	-	-	50.0	50.0	100.0
	-	-	143.8	152.7	296.5
Floating rate	-	-	186.4	-	186.4
Fixed to floating rate swaps	-	-	-	50.1	50.1
Floating to fixed interest rate swaps	-	-	(50.0)	(50.0)	(100.0)
	-	-	136.4	0.1	136.5
Total	-	-	280.2	152.8	433.0
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
	£m	£m	£m	£m	£m
Year ended 28 February 2013					
Fixed rate	-	-	26.7	234.2	260.9
Fixed to floating rate swaps	-	-	-	(50.1)	(50.1)
Floating to fixed interest rate swaps	-	-	50.0	50.0	100.0
	-	-	76.7	234.1	310.8
Floating rate	9.0	-	242.0	-	251.0
Fixed to floating rate swaps	-	-	-	50.1	50.1
Floating to fixed interest rate swaps	-	-	(50.0)	(50.0)	(100.0)
	9.0	-	192.0	0.1	201.1
Total	9.0	-	268.7	234.2	511.9

The maturity analysis is grouped by when the debt is contracted to mature rather than by repricing dates, as allowed under IFRS.

There are £50.0m of swaps (2013: £100.0m) with maturities beyond the life of the current revolving credit facility (2018), which are in place to hedge against the core level of debt the Group will hold.

The carrying amount of the Group's borrowings is denominated in sterling and US dollars.

At 27 February 2014, the Group had available £460.0m (2013: £405.0m) of undrawn committed borrowing facilities in respect of revolving credit facilities on which all conditions precedent had been met.

Notes to the consolidated financial statements

At 27 February 2014

20 Movements in cash and net debt

Year ended 27 February 2014	28 February 2013	Cost of borrowings	Cash flow	Foreign exchange	Fair value adjustments to loans	Amortisation of premiums and discounts	27 February 2014
	£m	£m	£m	£m	£m	£m	£m
Cash at bank and in hand	39.2						41.3
Short-term deposits	1.6						0.1
Overdrafts	-						-
Cash and cash equivalents	40.8	-	1.9	(1.3)	-	-	41.4
Short-term bank borrowings	(9.0)	-	9.0	-	-	-	-
Loan capital under one year	-						-
Loan capital over one year	(502.9)						(433.0)
Total loan capital	(502.9)	1.7	54.9	8.2	6.5	(1.4)	(433.0)
Net debt	(471.1)	1.7	65.8	6.9	6.5	(1.4)	(391.6)

Year ended 28 February 2013	1 March 2012	Cost of borrowings	Cash flow	Foreign exchange	Fair value adjustments to loans	Amortisation of premiums and discounts	28 February 2013
	£m	£m	£m	£m	£m	£m	£m
Cash at bank and in hand	40.3						39.2
Short-term deposits	-						1.6
Overdrafts	(0.7)						-
Cash and cash equivalents	39.6	-	0.4	0.8	-	-	40.8
Short-term bank borrowings	(13.5)	-	4.5	-	-	-	(9.0)
Loan capital under one year	-						-
Loan capital over one year	(530.4)						(502.9)
Total loan capital	(530.4)	-	32.0	-	(3.1)	(1.4)	(502.9)
Net debt	(504.3)	-	36.9	0.8	(3.1)	(1.4)	(471.1)

21 Provisions

	Onerous contracts	Other	Total
	£m	£m	£m
At 1 March 2012	40.6	7.2	47.8
Created	-	0.3	0.3
Unwinding of discount rate	1.1	-	1.1
Utilised	(6.2)	(0.1)	(6.3)
At 28 February 2013	35.5	7.4	42.9
Created	6.8	0.1	6.9
Unwinding of discount rate	0.9	-	0.9
Utilised	(5.0)	(0.1)	(5.1)
At 27 February 2014	38.2	7.4	45.6
Analysed as:			
Current	12.9	-	12.9
Non-current	25.3	7.4	32.7
At 27 February 2014	38.2	7.4	45.6
Analysed as:			
Current	10.3	-	10.3
Non-current	25.2	7.4	32.6
At 28 February 2013	35.5	7.4	42.9

Notes to the consolidated financial statements

At 27 February 2014

21 Provisions (continued)

Onerous contracts

Onerous contract provisions relate primarily to property reversions. Provision is made for rent and other property related costs for the period that a sublet or assignment of the lease is not possible. Where the property is deemed likely to be assigned, provision is made for the best estimate of the reverse lease premium payable on the assignment. Where the property is deemed likely to be sublet, the rental income and the timing of the cash flows are estimated by both internal and external property specialists and a provision is maintained for the estimated cost incurred by the Group.

Onerous lease provisions are discounted using a discount rate of 3.74% (2013: 3.74%) based on an approximation for the time value of money.

The amount and timing of the cash outflows are subject to variation. The Group utilises the skills and expertise of both internal and external property experts to determine the provision held.

Provisions are expected to be utilised over a period of up to 25 years.

Other

Other provisions relate to warranties given on the disposal of businesses. These are expected to be used over periods of up to three years.

22 Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise bank loans, private placement loans, cash, short-term deposits, trade receivables and trade payables. The Group's financial instrument policies can be found in the accounting policies in Note 2. The Board agrees policies for managing the financial risks summarised below:

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term sterling debt obligations. Interest rate swaps are used to achieve the desired mix of fixed and floating rate debt in conjunction with private placement loan notes. The Group's policy is to fix, on a long-term basis, between 35% and 65% of projected net interest cost but significant transactions can lead to a short-term deviation from this policy. This policy reduces the Group's exposure to the consequences of interest rate fluctuations. At the year-end, £296.5m (68.5%) of Group debt was fixed for an average of 5.88 years at an average interest rate of 5.0% (2013: £310.8m, (61.8%), for 6.87 years, at 5.1%)

Although the private placement loan notes are US dollar denominated, cross-currency swaps mean that the interest rate risk is effectively sterling only.

In accordance with IFRS 7, the Group has undertaken sensitivity analysis on its financial instruments which are affected by changes in interest rates. This analysis has been prepared on the basis of a constant amount of net debt, a constant ratio of fixed to floating interest rates, and on the basis of the hedging instruments in place at 27 February 2014 and 28 February 2013 respectively. Consequently, the analysis relates to the situation at those dates and is not representative of the years then ended. The following assumptions were made:

- balance sheet sensitivity to interest rates applies only to derivative financial instruments, as the carrying value of debt and deposits does not change as interest rates move;
- gains or losses are recognised in equity or the income statement in line with the accounting policies set out in Note 2; and
- cash flow hedges were effective.

Based on the Group's net debt position at the year-end, a 1%pt change in interest rates would affect the Group's profit before tax by approximately £1.4m (2012/13: £1.9m), and equity by approximately £5.2m (2013: £6.6m).

Liquidity risk

In its funding strategy, the Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of overdrafts and bank loans. This strategy includes monitoring the maturity of financial liabilities to avoid the risk of a shortage of funds.

Excess cash used in managing liquidity is placed on interest-bearing deposit where maturity is fixed at no more than three months. Short-term flexibility is achieved through the use of short-term borrowing on the money markets.

The tables below summarise the maturity profile of the Group's financial liabilities at 27 February 2014 and 28 February 2013 based on contractual undiscounted payments, including interest:

	On demand	Less than 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
	£m	£m	£m	£m	£m	£m
27 February 2014						
Interest-bearing loans and borrowings	-	0.3	11.5	333.1	173.0	517.9
Derivative financial instruments	-	2.1	2.1	12.2	6.1	22.5
Trade and other payables	-	156.4	-	17.7	-	174.1
Accrued financial liabilities	-	-	158.2	-	-	158.2
Provisions in respect of financial liabilities	-	3.2	9.6	12.6	16.9	42.3
	-	162.0	181.4	375.6	196.0	915.0
	On demand	Less than 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
	£m	£m	£m	£m	£m	£m
28 February 2013						
Interest-bearing loans and borrowings	9.0	0.4	11.7	316.5	259.3	596.9
Derivative financial instruments	-	2.3	2.3	16.2	9.1	29.9
Trade and other payables	-	159.2	-	17.6	-	176.8
Accrued financial liabilities	-	-	113.6	-	-	113.6
Provisions in respect of financial liabilities	-	2.6	7.7	14.7	17.2	42.2
	9.0	164.5	135.3	365.0	285.6	959.4

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22 Financial risk management objectives and policies (continued)**Credit risk**

There are no significant concentrations of credit risk within the Group.

The Group is exposed to a small amount of credit risk that is primarily attributable to its trade and other receivables. This is minimised by dealing with counterparties with high credit ratings. The amounts included in the balance sheet are net of allowances for doubtful debts, which have been estimated by management based on prior experience and any known factors at the balance sheet date which may indicate that a provision is required. The Group's maximum exposure on its trade and other receivables is the carrying amount as disclosed in Note 17.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure arises from default of the counterparty, with a maximum exposure equal to the carrying value of these instruments. The Group seeks to minimise the risk of default in relation to cash and cash equivalents by spreading investments across a number of counterparties.

In the event that any of the Group's banks get into financial difficulty, the Group is exposed to the risk of withdrawal of currently undrawn committed facilities. This risk is mitigated by the Group having a range of counterparties to its facilities and by maintaining headroom.

Foreign currency risk

Foreign exchange exposure is currently not significant to the Group. Although the Group has US dollar denominated loan notes, these have been swapped into sterling thereby eliminating foreign currency risk. Sensitivity analysis has therefore not been carried out.

The Group monitors the growth and risks associated with its overseas operations and will undertake hedging activities as and when they are required.

Capital management

The Group's primary objective in regard to capital management is to ensure that it continues to operate as a going concern and has sufficient funds at its disposal to grow the business for the benefit of shareholders. The Group seeks to maintain a ratio of debt to equity that balances risks and returns and also complies with lending covenants. See pages 38 to 41 of this Report for the policies and objectives of the Board regarding capital management, analysis of the Group's credit facilities and financing plans for the coming years.

The Group aims to maintain sufficient funds for working capital and future investment in order to meet growth targets. The Group has adopted a framework to keep leverage (debt divided by EBITDAR) on a pensions lease adjusted basis at 3.5 times or below, which was achieved for the year ended 27 February 2014. This calculation takes account of net debt, the pension deficit and the capital value of leases. The management of equity through share buy backs and new issues is considered as part of the overall leverage framework balanced against the funding requirements of future growth. In addition, the Group may carry out a number of small sale and leaseback transactions to provide further funding for growth.

The Group's financing is subject to financial covenants. These covenants relate to measurement of EBITDA against consolidated net finance charges (interest cover) and total net debt (leverage ratio, on a not-adjusted-for pension and property lease basis). The Group has complied with all of these covenants.

The above matters are considered at regular intervals and form part of the business planning and budgeting processes. In addition, the Board regularly reviews the Group's dividend policy and funding strategy.

23 Financial instruments**Fair values**

As in the prior year, the carrying value of financial assets and liabilities disclosed in Notes 17,18,19,20,21 and 24 are considered to be reasonable approximations of their fair values.

The fair value of loan capital and derivative instruments is calculated by discounting all future cash flows by the market yield curve at the balance sheet date using level 2 techniques.

Hierarchical classification of financial assets and liabilities measured at fair value

IFRS 13 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive the fair value. The classification uses the following three-level hierarchy:

Level 1

Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2

Other techniques for which all inputs, which have a significant effect on the recorded fair value, are observable, either directly or indirectly.

Level 3

Techniques which use inputs, which have a significant effect on the recorded fair value, that are not based on observable market data.

	Level 1	Level 2	Level 3	Total
27 February 2014	£m	£m	£m	£m
Financial assets				
Derivative financial instruments	-	-	-	-
Financial liabilities				
Derivative financial instruments	-	29.0	-	29.0

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23 Financial instruments (continued)

	Level 1	Level 2	Level 3	Total
28 February 2013	£m	£m	£m	£m
Financial assets				
Derivative financial instruments	-	8.5	-	8.5
Financial liabilities				
Derivative financial instruments	-	23.3	-	23.3

During the year ended 27 February 2014, there were no transfers between fair value measurement levels. Derivative financial instruments include £nil assets (2013: £7.1m) and £24.7m liabilities (2013: £18.7m) due after one year.

Derivative financial instruments

Hedges

Cash flow hedges

At 27 February 2014, the Group has interest rate swaps in place to swap a notional amount of £100.0m (2013: £100.0m) whereby, it receives a variable interest rate based on LIBOR on the notional amount and pays fixed rates of between 5.145% and 5.372% (2013: 5.145% and 5.372%). The swaps are being used to hedge the exposure to changes in future cash flows from variable rate debt. The Group also has cross-currency swaps in place whereby it received a fixed interest rate of between 3.92% and 4.86% (2013: 3.92% and 4.86%) on a notional amount of \$250.0m (2013: \$250.0m) and paid an average of 4.72% on a notional sterling balance of £158.2m (2013: 4.72% on £158.2m).

There are £50.0m of swaps (2013: £100.0m) with maturities beyond the life of the current revolving credit facility (2018), which are in place to hedge against the core level of debt the Group will hold.

Fair value hedges

At 27 February 2014, the Group has cross-currency swaps in place whereby it receives a fixed interest rate of 5.23% (2013: 5.23%) on a notional amount of \$75.0m (2013: \$75.0m) and paid a spread of between 1.715% and 1.755% (2013: 1.715% and 1.755%) over 6m GBP LIBOR on a notional sterling balance of £50.1m (2013: £50.1m).

Cash flow and fair value hedges are expected to impact on the income statement in line with the liquidity risk table shown in Note 22.

The cash flow hedges were assessed to be highly effective at 27 February 2014 and a net unrealised gain of £1.4m (2012/13: net unrealised gain of £8.3m) has been recorded in other comprehensive income. The fair value hedges were also assessed to be highly effective at 27 February 2014, with a debit of £0.9m recorded within finance costs in the income statement (2012/13: a credit of £0.4m). During the year, a loss of £3.8m (2012/13: £7.0m) was charged to the income statement in respect of hedged items affecting the net finance charge for the year.

24 Trade and other payables

	2014	2013
	£m	£m
Trade payables	109.3	111.6
Other taxes and social security	56.4	39.6
Deferred income	52.0	35.2
Accruals	158.2	113.6
Amounts owed to parent undertakings	95.9	140.1
Other payables	57.9	65.0
	529.7	505.1
Analysed as:		
Current	512.0	487.5
Non-current	17.7	17.6
	529.7	505.1

25 Share capital

Alotted, called up and fully paid	2014	2013
"A" Ordinary shares of 25 pence each (2013: 25 pence each)	11.0	11.0
Ordinary shares of 25 pence each (2013: 25 pence each)	122.7	122.7
	133.7	133.7
Number of "A" ordinary shares in issue (m)	44.0	44.0
Number of ordinary shares in issue (m)	490.6	490.6
Total shares in issue (m)	534.6	534.6

The "A" shares have the same rights and rank equally with the ordinary shares, save that:

- a holder of "A" shares shall, on return of assets, whether on a winding-up or otherwise, be entitled to participate proportionately in the surplus assets of the Company remaining after the payment of its liabilities provided that the maximum extent of such participation shall be the amount paid up, credited as paid up, on such shares at the time of the return of assets;
- a holder of "A" shares has no right as such to receive notice of or attend or vote at any general meeting of the Company unless a resolution to vary or abrogate the rights attaching to such shares as proposed; and
- a holder of "A" shares is not entitled to any dividend or any other distribution (except as provided for in (i) above).

Notes to the consolidated financial statements

At 27 February 2014

26 Reserves

Nature and purpose of reserves

Share capital

Share capital comprises the nominal value of the Company's ordinary shares of 25 pence each.

Share premium

The share premium reserve is the premium paid on the Company's 25 pence ordinary shares.

Retained earnings

In accordance with IFRS practice, retained earnings include revaluation reserves which are not distributable under UK law.

Currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries and other foreign currency investments.

Hedging reserve

This reserve records movements for effective cash flow hedges measured at fair value.

ESOT shares

This reserve relates to shares held by an independently managed employee share ownership trust (ESOT). The shares held by the ESOT were purchased in order to satisfy outstanding employee share options and potential awards under the Long-Term Incentive Plan (LTIP) and other incentive schemes.

The movement in ESOT shares during the year is set out in the table below:

	ESOT shares held	
	million	£m
At 1 March 2012	0.9	13.7
Transferred	0.3	5.1
Purchased	0.1	3.2
Exercised during the year	(0.2)	(3.6)
At 28 February 2013	1.1	18.4
Transferred	0.5	6.8
Exercised during the year	(0.4)	(7.3)
At 27 February 2014	1.2	17.9

27 Commitments and contingencies

Operating lease commitments

The Group leases various buildings which are used within the Hotels & Restaurants and Costa businesses. The leases are non-cancellable operating leases with varying terms, escalation clauses and renewal rights. The Group also leases various plant and equipment under non-cancellable operating lease agreements.

Contingent rents are the portion of the lease payment that is not fixed in amount but based upon the future amount of a factor that changes other than with the passage of time (e.g. percentage of future sales, amount of future use, future price indices, future market rates of interest).

Future minimum rentals payable under non-cancellable operating leases, on an undiscounted basis, are as follows:

	2014	2013
	£m	£m
Due within one year	173.0	163.1
Due after one year but not more than five years	598.2	554.6
Due after five years but not more than ten years	543.3	502.1
Due after ten years	1,263.2	1,240.7
	2,577.7	2,460.5

Future minimum rentals payable under non-cancellable operating leases disclosed above includes £109.7m in relation to privity contracts (2012/13: £123.0m). Future lease costs in respect of these privity contracts are included within the onerous contracts provision (Note 21). Onerous contracts are under constant review and every effort is taken to reduce this obligation.

The weighted average lease life of future minimum rentals payable under non-cancellable operating leases is 14.0 years (2013: 14.7 years).

Group companies have sublet space in certain properties. The future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 27 February 2014 are £13.6m (2013: £11.8m).

Contingent liabilities

There are no contingent liabilities to be disclosed in the year ended 27 February 2014. In the prior year, there was a £5.3m contingent liability which has been recognised as a liability in this financial year. See Note 6 for further details.

Notes to the consolidated financial statements

At 27 February 2014

28 Share-based payment plans

The plans outlined below award shares in Whitbread PLC.

Long-Term Incentive Plan (LTIP)

The LTIP awards shares to directors and senior executives of the Group. Vesting of all shares under the scheme will depend on continued employment and meeting earnings per share (EPS) performance targets over a three-year period (the vesting period). In addition, awards from 2012 onwards, are dependent on meeting a return on capital employed (ROCE) target over the vesting period. Grants prior to this were dependent on meeting a total shareholder return (TSR) target over the vesting period. Details of the performance targets for the LTIP awards can be seen in the remuneration report on pages 67 to 76.

The awards are settled in equity once exercised.

Movements in the number of share awards are as follows:

	2014 Awards	2013 Awards
Outstanding at the beginning of the year	958,874	888,885
Granted during the year	320,130	339,816
Exercised during the year	(250,299)	(227,087)
Expired during the year	(51,357)	(42,740)
Outstanding at the end of the year	977,348	958,874
Exercisable at the end of the year	35,310	119,293

Deferred equity awards

Awards are made under the Whitbread Leadership Group Incentive Scheme implemented during 2004/5.

The awards are not subject to performance conditions and will vest in full on the release date subject to continued employment at that date. If the director or senior executive of the Group ceases to be an employee of Whitbread prior to the release date, normally three years after the award, by reason of redundancy, retirement, death, injury, ill health, disability or some other reason considered to be appropriate by the remuneration committee, the awards will be released in full. If employment ceases for any other reason, the proportion of awards which vest depends upon the year in which the award was made and the date that employment ceased. If employment ceases in the first year after an award is made none of the awards vest, between the first and second anniversary, 25% vests and between the second and third anniversary, 50% vests.

Movements in the number of share awards are as follows:

	2014 Awards	2013 Awards
Outstanding at the beginning of the year	503,887	393,243
Granted during the year	187,693	154,203
Exercised during the year	(192,120)	(13,751)
Expired during the year	(20,966)	(29,808)
Outstanding at the end of the year	478,494	503,887
Exercisable at the end of the year	-	-

Employee sharesave scheme

The employee sharesave scheme is open to employees with the required minimum period of service and provides for a purchase price equal to the market price on the date of grant, less a 20% discount. The shares can be purchased over the six-month period following the third or fifth anniversary of the commencement date, depending on the length chosen by the employee.

Movements in the number of share options and the related weighted average exercise price (WAEP) are as follows:

	2014		2013	
	Options	WAEP £ per share	Options	WAEP £ per share
Outstanding at the beginning of the year	1,125,508	16.27	1,160,139	11.91
Granted during the year	385,072	27.46	399,084	19.14
Exercised during the year	(225,863)	10.79	(221,547)	9.85
Expired during the year	(185,695)	16.84	(212,168)	15.51
Outstanding at the end of the year	1,099,022	19.58	1,125,508	16.27
Exercisable at the end of the year	23,226	10.93	15,881	10.44

The weighted average contractual life of the share options outstanding as at 27 February 2014 is between two and three years. Outstanding options to purchase ordinary shares of 76.80 pence between 2013 and 2018 are exercisable at prices between £7.28 and £27.46 (2013: between 2012 and 2017 at prices between £7.28 and £19.14). The fair value of share options granted is estimated as at the date of grant using a stochastic model, taking into account the terms and conditions upon which the options were granted.

The weighted average share price at the date of exercise for employee share scheme options exercised during the year was £37.62 (2013: £24.51)

Notes to the consolidated financial statements

At 27 February 2014

28 Share-based payment plans (continued)**Total charged to the Income statement**

	2013/14 £m	2012/13 £m
Long-Term Incentive Plan	5.4	4.1
Deferred equity	4.0	3.5
Employee share scheme	1.8	1.9
	11.2	9.5
Equity-settled	10.6	9.2
Cash-settled	0.6	0.3
	11.2	9.5

The following table lists the inputs to the model used for the years ended 27 February 2014 and 28 February 2013:

	Grant date	Number of shares granted	Fair value %	Fair value £	Exercise price £	Price at grant date £	Expected term (years)	Expected dividend yield %	Expected volatility %	Risk-free rate %	Vesting conditions
LTIP awards	02.05.2013	320,130	92.8	7,763,513	-	26.20	3.00	2.5	n/a	n/a	Non-market ^{1,2,3}
	19.06.2012	339,816	91.4	6,109,341	-	19.67	3.00	3.0	n/a	n/a	Non-market ^{1,2,3}
Deferred equity awards	30.04.2013	187,593	92.8	4,450,276	-	25.55	3.00	2.5	n/a	n/a	Service ³
	26.04.2012	154,203	91.4	2,707,467	-	19.21	3.00	3.0	n/a	n/a	Service ³
SAYE - 3 years	29.11.2013	311,010	22.8	2,529,370	27.46	35.67	3.25	2.5	20.0	0.97	Service ³
	30.11.2012	335,917	23.0	1,853,489	19.14	23.99	3.25	2.5	25.0	0.46	Service ³
SAYE - 5 years	29.11.2013	74,062	24.6	649,881	27.46	35.67	5.25	2.5	20.0	1.71	Service ³
	30.11.2012	63,167	24.9	377,720	19.14	23.99	5.25	2.5	25.0	0.92	Service ³

¹ Return on capital employed

² Earnings per share

³ Employment service

Expected volatility reflects the assumption that historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

The risk-free rate is the rate of interest obtainable from government securities over the expected life of the equity incentive.

The expected dividend yield is calculated on the basis of publicly available information at the time of the grant date which, in most cases, is the historic dividend yield.

No other features relating to the granting of options were incorporated into the measurement of fair value.

Employee share ownership trust (ESOT)

The Company funds an ESOT to enable it to acquire and hold shares for the LTIP. The ESOT held 1.2m shares at 27 February 2014 (2013: 1.1m). All dividends on the shares in the ESOT are waived by the Trustee.

Notes to the consolidated financial statements

At 27 February 2014

29 Retirement benefits

Defined contribution schemes

The Group operates a contracted-in defined contribution scheme under the Whitbread Group Pension Fund. Contributions by both employees and Group companies are held in externally invested, trustee-administered funds. The Group also had a contracted-out defined contribution pension scheme which was wound up during 2012.

The Group contributes a specified percentage of earnings for members of the above defined contribution scheme, and thereafter has no further obligations in relation to the scheme. The total cost charged to income in relation to the defined contribution scheme in the year was £6.8m (2012/13: £4.1m).

At the year-end, 25,770 employees (2013: 2,897) were active members of the scheme, which also had 4,172 deferred members (2013: 4,104).

Defined benefit scheme

The defined benefit (final salary) section of the principal Group pension scheme, the Whitbread Group Pension Fund, was closed to new members on 31 December 2001 and to future accrual on 31 December 2009.

At the year-end the scheme had no active members (2013: nil), 24,161 deferred pensioners (2013: 24,851) and 16,681 pensions in payment (2013: 16,662).

The liability recognised in the balance sheet in respect of the defined benefit pension scheme is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The IAS 19 (revised 2011) pension cost relating to the defined benefit section of the Whitbread Group Pension Fund is assessed in accordance with actuarial advice from Lane Clark & Peacock and calculations provided by Towers Watson, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that have terms to maturity approximating to the terms of the related pension obligation. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. As the scheme is closed to future accrual, there is no future service cost.

The weighted average duration of the defined benefit plan obligation at the end of the reporting period is 17.5 years (2013: 17.5 years).

Funding

Expected contributions to be made in the next reporting period total £76.4m (2013: £66.1m). In 2013/14, contributions were £71.2m with £62.4m from the employer, £8.7m from Moorgate SLP and £0.1m of benefits settled by the Group in relation to an unfunded scheme (2012/13: £45.7m, with £37.2m from employer, £8.4m from Moorgate SLP and £0.1m of benefits settled by the Group in relation to an unfunded scheme).

A scheme specific actuarial valuation for the purpose of determining the level of cash contributions to be paid into the Whitbread Group Pension Fund was undertaken as at 31 March 2011. A deficit recovery plan and some protection whilst the scheme remains in deficit, have been agreed with the Trustee. The Group made a £60.0m payment in 2013/14 and will make the following payments to the Fund: £65.0m in each of August 2014 and August 2015; £70.0m in August 2016; £80.0m in August 2017 and £70.0m in August 2018. For the period of the deficit, the Group has agreed to give undertakings to the Trustee similar to some of the covenants provided in respect of its banking agreements, up to the value of any outstanding recovery plan payments or the remaining deficit, if lower. Until the next valuation, the Trustee has also been given a promise of accelerated payments of up to £5.0m per annum where increases in ordinary dividends exceed RPI and the right to consultation before any special distributions can be made.

In addition to the scheduled deficit contribution payments described above, the Pension Scheme will receive a share of the income, profits and a variable capital payment from its investment in Moorgate Scottish Limited Partnership (SLP), which was established by the Group in the year ended 4 March 2010 (the share in profits is accounted for by the Group as contributions when paid). The partnership interests in Moorgate SLP are held by the Group, the general partner and by the Pension Scheme.

Moorgate SLP holds an investment in a further partnership, Farrington Scottish Partnership (SP), which was also established by the Group during 2009/10. Property assets with a market value of £221.0m have been transferred from other Group companies to Farrington SP and leased back to Whitbread Group PLC and Premier Inn Hotels Limited. The Group retains control over these properties, including the flexibility to substitute alternative properties. However, the Trustee has first charge over the property portfolio and certain other assets with an aggregate value of £228.0m. The Group retains control over both partnerships and, as such, they are fully consolidated in these consolidated financial statements.

The Pension Scheme is a partner in Moorgate SLP and, as such, is entitled to an annual share of the profits of the partnership over the next 11 years. At the end of this period, the partnership capital allocated to the Pension Scheme partner will, depending on the funding position of the Pension Scheme at that time, be transferred in cash to the Pension Scheme up to a value of £150.0m (2013: £150.0m).

Under IAS 19 (revised 2011), the investment held by the Pension Scheme in Moorgate SLP, a consolidated entity, does not represent a plan asset for the purposes of the consolidated financial statements. Accordingly, the pension deficit position in these consolidated financial statements does not reflect the £141.0m (2013: £141.0m) investment in Moorgate SLP held by the Pension Scheme.

During the year ended 28 February 2013, the Group entered into a charge in favour of Whitbread Pension Trustees Limited over properties with a market value totalling £180.0m at that date. The charge was to secure the obligations of the Group to make payments to the Pension Fund as part of the recovery plan to reduce the deficit. This, together with the properties secured as a consequence of the arrangement surrounding the Scottish Limited Partnerships, secures properties totalling £408.0m in favour of the Pension Scheme.

Notes to the consolidated financial statements

At 27 February 2014

29 Retirement benefits (continued)

Risks

Through its defined benefit scheme, the Group is exposed to a number of risks in relation to the IAS19 deficit, the most significant of which are detailed below:

Risk	Description	Principal impact on assets and obligation reconciliations
Market volatility	The defined benefit obligation is linked to AA-rated corporate bonds whilst scheme assets are invested in equities, gilts, bonds, property and cash. This exposes the Group to risks including those relating to interest rates, equity markets, property markets and foreign exchange. Changing market conditions, in conjunction with discount rate fluctuations, will lead to volatility in the Group's net pension liability on the balance sheet, pension expense in the income statement and re-measurement movements in other comprehensive income.	Return on plan assets
Inflationary risk	Due to the link between the scheme obligation and inflation, an increased rate of inflation will lead to higher scheme liabilities.	Actuarial movements in financial assumptions
Accounting assumptions	The defined benefit obligation is calculated by projecting the future cash flows of the scheme for many years into the future. Consequently, the assumptions used can have a significant impact on the balance sheet position and income statement charge. In practice, future Scheme experience may not be in line with the assumptions adopted. For example, an increase in the life expectancy of members would increase scheme liabilities.	Discount rate: interest income on scheme assets and cost on liabilities Mortality: actuarial movements in demographic assumptions

The principal assumptions used by the independent qualified actuaries in updating the most recent valuation carried out as at 31 March 2011 of the UK scheme to 27 February 2014 for IAS 19 (revised 2011) purposes were:

	At 27 February 2014 %	At 28 February 2013 %
Pre April 2006 rate of increase in pensions in payment	3.10	3.20
Post April 2006 rate of increase in pensions in payment	2.20	2.20
Pension increases in deferment	3.10	3.20
Discount rate	4.30	4.60
Inflation assumption	3.25	3.35

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 20.0 years (2013: 19.9 years) if they are male and for a further 22.6 years (2013: 22.5 years) if they are female. For a member who retires in 2034 at age 65, the assumptions are that they will live on average for a further 21.9 years (2013: 21.8 years) after retirement if they are male and for a further 24.4 years (2013: 24.4 years) after retirement if they are female.

The amounts recognised in the income statement in respect of the defined benefit scheme are as follows:

	2013/14 £m	2012/13* £m
Net interest on net defined benefit liability	23.6	27.0
Administrative expenses	2.5	3.1
Total expense recognised in the income statement (gross of deferred tax)	26.1	30.1

Amounts recognised in operating profit for service costs or curtailment are £nil (2012/13: £nil).

The amounts taken to the consolidated statement of comprehensive income are as follows:

	2013/14 £m	2012/13* £m
Actuarial losses	77.7	74.7
Return on plan assets greater than discount rate	(40.0)	(116.1)
Re-measurement effects recognised in other comprehensive income	37.7	(41.4)

The amounts recognised in the balance sheet are as follows:

	2014 £m	2013 £m
Present value of defined benefit obligation	(2,104.9)	(2,021.6)
Fair value of scheme assets	1,570.6	1,479.9
Liability recognised in the balance sheet	(534.3)	(541.7)

Notes to the consolidated financial statements

At 27 February 2014

29 Retirement benefits (continued)

During the year, the accounting deficit decreased from £541.7m at 28 February 2013 to £534.3m at 27 February 2014. The principal reason for this gain was due to improved asset performance and the fact that employer contributions exceeded the pension expense for the year. These two positive factors were offset by an increase in the defined benefit obligation as a result of the reduction in the discount rate.

Changes in the present value of the defined benefit obligation are as follows:

	2014 £m	2013* £m
Opening defined benefit obligation	2,021.6	1,939.7
Interest cost	91.1	88.4
Re-measurement due to:		
Changes in financial assumptions	74.0	80.0
Changes in demographic assumptions	-	-
Experience adjustments	3.7	(5.3)
Benefits paid	(85.4)	(81.1)
Benefits settled by the Group in relation to an unfunded pension scheme ¹	(0.1)	(0.1)
Closing defined benefit obligation	2,104.9	2,021.6

Changes in the fair value of the scheme assets are as follows:

	2014 £m	2013* £m
Opening fair value of scheme assets	1,479.9	1,341.0
Interest income on scheme assets	67.5	61.4
Return on plan assets greater than discount rate	40.0	116.1
Contributions from employer ¹	62.4	37.2
Additional contributions from Moorgate SLP ¹	8.7	8.4
Benefits paid	(85.4)	(81.1)
Administrative expenses	(2.5)	(3.1)
Closing fair value of scheme assets	1,570.6	1,479.9

¹ The total of these three items equals the cash paid by the Group as per the consolidated cash flow statement

The major categories of plan assets are as follows:

	2014			2013		
	Quoted and pooled £m	Unquoted £m	Total £m	Quoted and pooled £m	Unquoted £m	Total £m
Equities	829.2	108.3	937.5	771.6	96.9	868.5
Government bonds	322.8	-	322.8	317.1	-	317.1
Corporate bonds	154.5	-	154.5	173.5	-	173.5
Property	63.6	14.8	78.4	53.8	14.8	68.6
Other **	77.4	-	77.4	52.2	-	52.2
	1,447.5	123.1	1,570.6	1,368.2	111.7	1,479.9

** Other relates to assets held in respect of cash and net current assets

The fair values of the assets have not materially changed due to the adoption of IFRS 13.

Notes to the consolidated financial statements

At 27 February 2014

29 Retirement benefits (continued)

The assumptions in relation to discount rate, mortality and inflation have a significant effect on the measurement of scheme liabilities. The following table shows the sensitivity of the valuation to changes in these assumptions:

(Increase)/decrease in liability		
	2014 £m	2013 £m
Discount rate		
0.25% increase to discount rate	88.0	83.0
0.25% decrease to discount rate	(88.0)	(83.0)
Inflation		
0.25% increase to inflation rate	(84.0)	(80.0)
0.25% decrease to inflation rate	84.0	80.0
Life expectancy		
Additional one year increase to life expectancy	(75.0)	(70.0)

The above sensitivity analyses are based on a change in an assumption whilst holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (projected unit credit method) has been applied as when calculating the pension liability recognised within the balance sheet. The methods and types of assumptions did not change.

* IAS 19 (revised 2011) has been adopted for the year ended 27 February 2014 and the comparatives for the year ended 28 February 2013 have been restated accordingly. Refer to Note 2 of the consolidated financial statements.

30 Related party disclosure

The Group's principal subsidiaries are listed in the following table:

Principal subsidiaries	Principal activity	Country of incorporation	% equity interest and votes held	
			2014	2013
Premier Inn Hotels Limited	Hotels	England	100.0	100.0
Whitbread Restaurants Limited	Restaurants	England	100.0	100.0
Premier Inn Limited	Hotels	England	100.0	100.0
Costa Limited	Operators of coffee shops and roasters and wholesalers of coffee beans	England	100.0	100.0
Yueda Costa (Shanghai) Food & Beverage Management Company Limited	Operators of coffee shops	China	51.0	51.0
Coffeeheaven International Limited	Operators of coffee shops in Eastern Europe	England	100.0	100.0
Coffee Nation Limited	Operators of customer-facing espresso-based self-serve coffee bars	England	100.0	100.0

Notes to the consolidated financial statements

At 27 February 2014

30 Related party disclosure (continued)

The Group holds 6% as a general partnership interest in Moorgate Scottish Limited Partnership (SLP) with Whitbread Pension Trustees holding the balance as a limited partner. Moorgate SLP holds a 67.8% investment in a further partnership, Farringdon Scottish Partnership (SP), which was established by the Group to hold property assets. The remaining 32.2% interest in Farringdon SP is owned by the Group. The partnerships were set up in 2009/10 as part of a transaction with Whitbread Pension Trustees and the Group retains control over both partnerships and, as such, they are fully consolidated in these consolidated financial statements. Further details can be found in Note 30.

The immediate and ultimate parent undertaking is Whitbread PLC and thus shares in Whitbread Group PLC are held directly by Whitbread PLC. Shares in the other subsidiaries are held directly and indirectly by Whitbread Group PLC. All principal subsidiary undertakings have the same year-end as Whitbread PLC, with the exception of Yueda Costa (Shanghai) Food & Beverage Management Company Limited which has a year-end of 31 December as required by Chinese legislation. All the above companies have been included in the Group consolidation. The companies listed above are those which materially affect the amount of profit and the assets of the Group.

Related party

	Sales to related party £m	Amounts owed by related party £m	Amounts owed to related party £m
Joint ventures			
2013/14	3.1	1.2	-
2012/13	2.7	1.2	-
Associate			
2013/14	3.8	0.7	-
2012/13	3.1	0.4	-

Compensation of key management personnel (including directors):

	2013/14 £m	2012/13 £m
Short-term employee benefits	6.8	5.8
Post employment benefits	0.2	0.2
Share-based payments	4.5	4.2
	11.5	10.2

Joint ventures

For details of the Group's investments in joint ventures see Note 14.

Associate

For details of the Group's investment in associate see Note 15.

Terms and conditions of transactions with related parties

Sales to, and purchases from, related parties are made at normal market prices. Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided, or received, for any related party receivables. For the year ended 27 February 2014, the Group has not raised a provision for doubtful debts relating to amounts owed by related parties (2013: £nil). An assessment is undertaken, each financial year, through examining the financial position of the related parties and the market in which the related parties operate.

Transactions with other related parties

Details of transactions with directors are detailed in the remuneration report in the Annual Report and Accounts of Whitbread PLC for the year ended 27 February 2014.

Directors' responsibility for the Company financial statements

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Company financial statements for each financial year. Under that law the directors have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under company law the directors must not approve the Company financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and
- prepare the Company financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Whitbread Group PLC

We have audited the parent Company financial statements of Whitbread Group PLC for the year ended 27 February 2014 which comprise the Balance Sheet and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and of auditor

As explained more fully in the Directors' Responsibilities Statement set out above, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Company financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the consolidated financial statements.

In addition, we read all the financial and non-financial information in the Consolidated Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Company financial statements

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 27 February 2014;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the consolidated financial statements are prepared is consistent with the parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the consolidated financial statements of Whitbread Group PLC for the year ended 27 February 2014.



Simon O'Neill (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham

20 August 2014

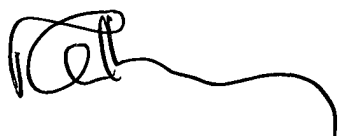
Balance sheet

At 27 February 2014

Company number: 29423

	Notes	2014 £m	2013 £m
Fixed assets			
Intangible assets	5	31.4	20.3
Tangible assets	6	468.4	469.7
Investment in subsidiaries and associates	7	1,117.9	1,117.9
Total non-current assets		1,617.7	1,607.9
Current assets			
Stock	8	8.5	8.8
Debtors: amounts falling due within one year	9	1,260.3	1,367.4
Cash		2.4	-
		1,271.2	1,376.2
Current liabilities			
Creditors: amounts falling due within one year	10	(246.7)	(225.7)
Net current assets		1,024.5	1,150.5
Total assets less current liabilities		2,642.2	2,758.4
Creditors: amounts falling due after more than one year	10, 11	(449.4)	(503.9)
Pension deficit	12	(294.8)	(308.5)
Provisions for liabilities and charges	13	(37.0)	(39.8)
		(781.2)	(852.2)
Net assets		1,861.0	1,906.2
Capital and reserves			
Share capital	14	133.7	133.7
Share premium	15	207.7	207.7
Revaluation reserve	15	18.5	17.7
Retained earnings	15	338.9	278.0
Other reserves	15	1,162.2	1,269.1
Shareholders' funds		1,861.0	1,906.2

Nicholas Cadbury
Finance Director



15 August 2014

Whitbread Group PLC

Notes to the accounts

At 27 February 2014

1 Basis of accounting

The financial statements of Whitbread Group PLC for the year ended 27 February 2014 were authorised for issue by the Board of Directors on 15 August 2014.

As permitted by Financial Reporting Standard No 1 (revised) a cash flow statement has not been prepared as the Company is a wholly-owned subsidiary.

The accounts are prepared under the historical cost convention and in accordance with applicable UK Accounting Standards.

2 Summary of significant accounting policies

Turnover and revenue recognition

Turnover is the value of goods and services sold within the UK as part of the Company's continuing ordinary activities after deducting sales based taxes.

Revenue from the sale of food and beverages is recognised when they sold.

Hotel revenue is recognised when rooms are occupied.

Intangible fixed assets

Goodwill is the difference between amounts paid on the acquisition of a business and the fair value of the identifiable assets and liabilities. It is amortised to the Profit and Loss Account over its estimated economic life.

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses

Amortisation is calculated on a straight-line basis over the estimated life of the asset as follows:

- IT software is amortised over periods of three to 10 years.

The carrying value of intangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Tangible fixed assets

Prior to the adoption of FRS 15 in the 1999/2000 financial year, properties were regularly revalued on a cyclical basis. Since the adoption of FRS 15, the Group policy has not been to revalue its properties. Consequently, the transitional provisions of FRS 15 have been applied and, while previous valuations have been retained, they have not been updated. Details of the last revaluations are given in note 6. Other fixed assets are stated at cost. Gross interest costs incurred on the financing of major projects are capitalised until the time that they are available for use.

Depreciable fixed assets are written off on a straight line basis over their estimated useful lives as follows:

- Freehold land is not depreciated.
- Freehold and long leasehold buildings are depreciated to their estimated residual values over periods up to 50 years.
- Fixtures, furniture and equipment is depreciated over three to 30 years.

The carrying values of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that their carrying values may not be recoverable. Any impairment in the value of property, plant and equipment is charged to the income statement. Profits and losses on disposal of fixed assets reflect the differences between net selling price and net book value at the date of disposal.

Investments

Investments held as fixed assets are stated at cost less provision for any impairment. The carrying value of investments are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental payments in respect of operating leases are charged against operating profit on a straight-line basis over the period of the lease. Lease incentives are recognised as a reduction of rental costs over the lease term.

Notes to the accounts

At 27 February 2014

2 Summary of significant accounting policies (continued)

Interest rate swaps

The company uses interest rate swaps to manage exposure to interest rate volatility. The swaps qualify for hedge accounting when they are related to an asset and liability and when they change the character of the interest rate by converting a variable rate to a fixed rate or vice versa.

Pension funding

In respect of defined benefit pension schemes, the obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for any unrecognised past service cost, reduced by the fair value of the scheme assets. The cost of providing benefits is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur in the statement of recognised income and expense.

For defined benefit plans, the employer's portion of the past and current service cost is charged to operating profit, with the interest cost net of expected return on assets in the plans reported within other finance costs. The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year.

Curtailments and settlements are recognised in the period in which the curtailment or settlement occurs.

Payments to defined contribution pension schemes are charged as an expense as they fall due.

Provisions for liabilities

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse, using rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are not discounted.

Share based payments

Certain employees and directors of the Company receive equity-settled remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares. The cost of equity-settled transactions with employees is measured by reference to the fair value, determined using a stochastic model, at the date at which they are granted. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions or non-vesting conditions are fulfilled, ending on the relevant vesting date. Except for awards subject to market related conditions for vesting, the cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired, and is adjusted to reflect the directors' best available estimate of the number of equity instruments that will ultimately vest. The profit and loss account charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. If options are subject to market related conditions, awards are not cumulatively adjusted for the likelihood of these targets being met. Instead these conditions are included in the fair value of the awards.

3 Profit earned for ordinary shareholders

The profit and loss account of the parent Company is omitted from the Company's accounts by virtue of the exemption granted by Section 408 of the Companies Act 2006. The loss incurred by ordinary shareholders and included in the accounts of the parent Company amounted to £27.4m (2013: loss of £2.5m).

Notes to the accounts

At 27 February 2014

4 Dividends paid and proposed

	2014	2013
	£m	£m
Dividends paid	-	-

5 Intangible assets

	IT software	Goodwill	Total
	£m	£m	£m
Cost			
At 1 March 2012	52.8	4.1	56.9
Additions	10.7	-	10.7
Assets written off	(29.5)	-	(29.5)
Transfers	1.8	-	1.8
At 28 February 2013	35.8	4.1	39.9
Additions	16.5	-	16.5
Assets written off	(3.0)	-	(3.0)
Transfers	0.2	-	0.2
At 27 February 2014	49.5	4.1	53.6
Amortisation and impairment			
At 1 March 2012	(44.1)	(0.7)	(44.8)
Amortisation during the year	(4.1)	(0.2)	(4.3)
Amortisation on assets written off	29.5	-	29.5
At 28 February 2013	(18.7)	(0.9)	(19.6)
Amortisation during the year	(5.4)	(0.2)	(5.6)
Amortisation on assets written off	3.0	-	3.0
Transfers	-	-	-
At 27 February 2014	(21.1)	(1.1)	(22.2)
Net book value at 27 February 2014	28.4	3.0	31.4
Net book value at 28 February 2013	17.1	3.2	20.3

Capital expenditure commitments in relation to intangible assets at the year end amounted to £2.0m (2013: £nil).

Notes to the accounts

At 27 February 2014

6 Tangible fixed assets

	Land & buildings £m	Furniture, fixtures & equipment £m	Total £m
Cost			
At 28 February 2013	346.7	198.4	545.1
Additions	8.3	20.7	29.0
Transfers	2.3	(2.1)	0.2
Assets written off	-	(8.7)	(8.7)
Reclassifications	0.1	(0.1)	-
At 28 February 2013	357.4	208.2	565.6
Additions	7.2	25.3	32.5
Transfers	(0.6)	(7.4)	(8.0)
Assets written off	-	(17.0)	(17.0)
Disposals	(5.0)	(2.2)	(7.2)
Reclassifications	(0.1)	0.1	-
At 27 February 2014	358.9	207.0	565.9
Depreciation			
At 1 March 2012	(16.3)	(65.3)	(81.6)
Depreciation during the year	(2.1)	(18.1)	(20.2)
Transfers	-	(0.1)	(0.1)
Assets written off	-	8.7	8.7
Impairment charge	(2.1)	(0.6)	(2.7)
At 28 February 2013	(20.5)	(75.4)	(95.9)
Depreciation during the year	(2.3)	(21.1)	(23.4)
Transfers	-	0.6	0.6
Assets written off	-	17.0	17.0
Disposals	3.2	1.9	5.1
Impairment charge	(0.7)	(0.2)	(0.9)
At 27 February 2014	(20.3)	(77.2)	(97.5)
Net book value at 27 February 2014	338.6	129.8	468.4
Net book value at 28 February 2013	336.9	132.8	469.7
Additions to land and buildings include £nil of interest capitalised during the year at an average rate of 4.1% (2013: £0.1m at 4.5%).			
If the revaluations up to 1998/99 had not taken place, the net book amounts of fixed assets would have been:			
Cost	332.4	207.0	539.4
Depreciation	(20.3)	(77.2)	(97.5)
Net book amounts 27 February 2014	312.1	129.8	441.9
Net book amounts 28 February 2013	310.4	132.8	443.2
		2014	2013
		£m	£m
Capital expenditure commitments for which no provision has been made		7.3	6.7

A change in estimate of the useful lives of certain assets has been implemented in 2013/14 to bring them in line with the new refurbishment programme. This has led to an accelerated depreciation charge of £0.8m in 2013/14 and will have a £0.8m impact in 2014/15.

Whitbread Group PLC

Notes to the accounts

At 27 February 2014

7 Investment in subsidiary undertakings

	Subsidiary undertakings £m	Associates £m	Total £m
Shares at cost			
At 28 February 2013	1,117.2	0.7	1,117.9
Additions	-	-	-
At 27 February 2014	1,117.2	0.7	1,117.9

Principal subsidiary undertakings	Principal Activity	Country of incorporation or registration	Country of principal operations	% of equity and votes held
Premier Inn Hotels Limited	Hotels	England	England	100
Whitbread Restaurants Limited	Restaurants	England	England	100
Premier Inn Limited	Hotels	England	England	100
Whitbread Hotel Company Limited	Hotels	England	England	100
Costa Limited	Roasters, wholesalers and retailers of coffee	England	England	100
Milton (SC) 2 Limited	Investment in property partnership	Scotland	Scotland	100

Principal associate	Principal Activity	Country of incorporation or registration	Country of principal operations	% of equity and votes held
Morrison Street Hotel Limited	Hotels	Scotland	Scotland	40

8 Stock

	2014 £m	2013 £m
Finished goods	8.5	8.8

9 Debtors

	2014 £m	2013 £m
Amounts falling due within one year		
Trade Debtors	14.1	13.2
Amounts owed by group undertakings and parent	1,191.3	1,323.0
Other debtors	0.4	1.6
Corporation tax	35.9	16.8
Prepayments and accrued income	18.6	12.8
	1,260.3	1,367.4

Notes to the accounts

At 27 February 2014

10 Creditors

	2014	2013
	£m	£m
Amounts falling due within one year		
Bank overdraft	-	11.6
Trade creditors	9.0	48.3
Other taxes and social security	57.1	41.2
Other creditors	33.6	40.8
Accruals and deferred income	147.0	83.8
	246.7	225.7
Amounts falling due after more than one year		
Loan capital	443.3	498.7
Stepped rent adjustment	6.1	5.2
	449.4	503.9

11 Loan capital

	2014	2013
	£m	£m
Loans repayable, included within creditors, are analysed as follows:		
Repayable in less than one year, or on demand	-	11.6
Repayable in between one and two years	-	-
Repayable in between two and five years	287.6	240.4
Repayable in more than five years	155.7	258.3
	443.3	510.3

Full details of the loans repayable are given in note 21 of the Whitbread Group PLC Annual Accounts

12 Pension deficit

	2014	2013
	£m	£m
Pension deficit	368.5	400.7
Deferred tax asset	(73.7)	(92.2)
Net pension deficit	294.8	308.5

During the year the accounting deficit decreased from £308.5m at 28 February 2013 to £294.8m at 27 February 2014. The principal reason for this decrease was an improved asset performance and the fact that employer contributions exceeded the pension expense for the year. This was offset by an increase in the defined benefit obligation as a result of the reduction in the discount rate and the change in the tax rate from 23% to 20% reducing the deferred tax asset.

As explained further in note 30 of the Whitbread PLC Annual Report and Accounts for the year ended 27 February 2014, the Whitbread Group established a partnership, Moorgate SLP, in which the Group is a general partner to hold an investment in a further partnership, Farringdon SP in March 2010.

Under FRS 17 the partnership interest held by the pension scheme represents a plan asset for the purposes of this company's accounts, and accordingly the pension deficit position in these company account has been reduced by £165.8m (2013: £141.0m) to reflect the interest in Moorgate SLP held by the pension scheme.

For information concerning the assets and liabilities of the pension scheme, and details of the actuarial valuation, please see note 30 of the Whitbread PLC Annual Report and Accounts for the year ended 27 February 2014.

Notes to the accounts

At 27 February 2014

13 Provisions for liabilities and charges

	Onerous contracts £m	Other £m	Deferred tax £m	Total £m
At 28 February 2013	23.3	7.0	9.5	39.8
Arising during the year	5.7	0.1	-	5.8
Utilised	(4.3)	-	-	(4.3)
Unwinding of discount rate	0.6	-	-	0.6
Released	-	-	(4.9)	(4.9)
Transfer	-	-	-	-
At 27 February 2014	25.3	7.1	4.6	37.0

Onerous contract provisions relate primarily to property reversions. Provision is made for rent and other property related costs for the period that a sub-let or assignment of the lease is not possible. Where the property is deemed likely to be assigned, provision is made for the best estimate of the reverse lease premium payable on the assignment. Where the property is deemed likely to be sublet, the rental income and the timing of the cash flows are estimated by both internal and external property specialists and a provision is maintained for the cost incurred by the Group.

Onerous lease provisions are discounted using a discount rate of 3.74% (2013: 3.74%) based on an approximation for the time value of money. The amount and timing of the cash outflows are subject to variations. The Group utilises the skills and expertise of both internal and external property experts to determine the provision held.

Provisions are expected to be utilised over a period of up to 25 years.

Other provisions relate to warranties given on the disposal of businesses. These are expected to be used over periods of up to three years.

14 Share capital

	2014 £m	2013 £m
Allotted, called up and fully paid		
"A" Ordinary shares of 25 pence each (2013: 25 pence each)	11.0	11.0
Ordinary shares of 25 pence each (2013: 25 pence each)	122.7	122.7
	133.7	133.7
Number of "A" ordinary shares in issue (m)	44.0	44.0
Number of ordinary shares in issue (m)	490.6	490.6
Total shares in issue (m)	534.6	534.6

The "A" shares have the same rights and rank equally with the ordinary shares, save that:

- i. a holder of "A" shares shall, on return of assets, whether on a winding-up or otherwise, be entitled to participate proportionately in the surplus assets of the Company remaining after the payment of its liabilities provided that the maximum extent of such participation shall be the amount paid up, credited as paid up, on such shares at the time of the return of assets;
- ii. a holder of "A" shares has no right as such to receive notice of or attend or vote at any general meeting of the Company unless a resolution to vary or abrogate the rights attaching to such shares as proposed; and
- iii. a holder of "A" shares is not entitled to any dividend or any other distribution (except as provided for in (i) above).

Notes to the accounts

At 27 February 2014

15 Shareholders' funds

	Share capital	Share premium	Revaluation reserve	Other non-distributable reserves	Retained earnings	Total
	£m	£m	£m	£m	£m	£m
At 28 February 2013	133.7	207.7	17.7	1,269.1	278.0	1,906.2
Loss for the year	-	-	-	-	(27.4)	(27.4)
Other recognised gains and losses	-	-	-	-	(25.5)	(25.5)
Reclassification of reserves	-	-	-	(106.9)	106.9	-
Equity share-based payments	-	-	-	-	7.7	7.7
Realised revaluation gain transferred to profit and loss account	-	-	0.8	-	(0.8)	-
At 27 February 2014	133.7	207.7	18.5	1,162.2	338.9	1,861.0

Nature and purpose of reserves*Share capital*

Share capital comprises the nominal value of the Company's ordinary shares of 25 pence each.

Share premium

The share premium reserve is the premium paid on the Company's 25 pence ordinary shares.

Revaluation reserve

The revaluation reserve includes the amounts that were re-valued on the UK properties up to and including 1998/99. Since the adoption of FRS15, it has been the Company's policy not to revalue fixed assets and the reserve is unwinding over a period of time as the re-valued properties are disposed of.

Other non-distributable reserves

The other non-distributable reserves relate to a capital redemption reserve created on the cancellation of shares and to profit on disposals to group companies.

Retained earnings

Retained earnings are the accumulated profits of the Company.

16 Lease commitments

	Land and Buildings	
	2014	2013
	£m	£m
Annual payments under operating leases which expire:		
Within one year	0.2	0.1
In one to five years	0.9	1.0
In over five years	31.8	23.1
	32.9	24.2

17 Share-based payments

All awards of shares referred to below are in the parent company, Whitbread PLC.

Long-Term Incentive Plan (LTIP)

The LTIP awards shares to directors and senior executives of the Group. Vesting of shares under the scheme will depend on continued employment and meeting earnings per share (EPS) performance targets over a three year period.

The awards are settled in equity once exercised.

Notes to the accounts

At 27 February 2014

17 Share-based payments (continued)

Movements in the number of share awards are as follows:

	2014	2013
	Awards	Awards
Outstanding at the beginning of the year	790,602	738,168
Granted during the year	236,052	254,630
Exercised during the year	(184,561)	(170,160)
Expired during the year	(37,869)	(32,036)
Outstanding at the end of the year	804,224	790,602
Exercisable at the end of the year	26,036	-

Deferred equity awards

Awards are made under the Whitbread Leadership Group Incentive Scheme implemented during 2004/5.

The awards are not subject to performance conditions and will vest in full on the release date subject to continued employment at that date. If the director or senior executive of the Group ceases to be an employee of Whitbread prior to the release date, normally three years after the award, by reason of redundancy, retirement, death, injury, ill health, disability or some other reason considered to be appropriate by the Remuneration Committee, the awards will be released in full. If employment ceases for any other reason the proportion of awards which vests depends upon the year in which the award was made and the date that employment ceased. If employment ceases in the first year after an award is made none of the award vests, between the first and second anniversary 25% vests and between the second and third anniversary 50% vests.

Movements in the number of share awards are as follows:

	2014	2013
	Awards	Awards
Outstanding at the beginning of the year	445,825	362,918
Granted during the year	138,398	115,547
Exercised during the year	(140,918)	(10,304)
Expired during the year	(15,460)	(22,336)
Outstanding at the end of the year	427,845	445,825
Exercisable at the end of the year	-	-

Notes to the accounts

At 27 February 2014

17 Share-based payments (continued)**Employee share scheme**

The employee Sharesave Scheme is open to employees with the required minimum period of service and provides for a purchase price equal to the market price on the date of grant, less a 20% discount. The shares can be purchased over the six-month period following the third or fifth anniversary of the commencement date, depending on the length chosen by the employee.

Movements in the number of share options and the related WAEP are as follows:

	2014		2013	
	WAEP		WAEP	
	Options	(£ per share)	Options	(£ per share)
Outstanding at the beginning of the year	1,057,102	16.27	1,089,214	11.91
Granted during the year	338,851	27.46	374,524	19.14
Exercised during the year	(212,342)	10.79	(208,033)	9.85
Expired during the year	(174,524)	16.84	(198,603)	15.51
Outstanding at the end of the year	1,009,087	19.58	1,057,102	16.27
Exercisable at the end of the year	21,841	10.93	14,934	10.44

The weighted average contractual life for the share options outstanding as at 27 February 2014 is between two and three years. Outstanding options to purchase ordinary shares of 76.80 pence between 2013 and 2018 are exercisable at prices between £7.28 and £27.46 (2013: between 2012 and 2017 at prices between £7.28 and £19.14). The fair value of share options granted is estimated as at the date of grant using a stochastic model, taking into account the terms and conditions upon which the options were granted.

The weighted average share price at the date of exercise for employee share scheme options exercised during the year was £37.62 (2013: £24.51).

Total charged to the income statement

	2013/14	2012/13
	£m	£m
Long-Term Incentive Plan	4.0	3.1
Deferred equity	2.9	2.6
Employee share scheme	1.3	1.4
	8.2	7.1
Equity settled	7.7	6.8
Cash settled	0.5	0.3
	8.2	7.1

For details of the inputs to the model used for Whitbread Group PLC for the year ended 27 February 2014, please refer to note 29 of the Annual Report and Accounts of Whitbread PLC.

18 Related parties

The Company is a wholly-owned subsidiary of Whitbread PLC, the ultimate parent, and has taken advantage of the exemption given in Financial Reporting Standard No. 8 not to disclose transactions with other group companies.

19 Parent undertaking

The immediate and ultimate parent undertaking is Whitbread PLC, registered in England and Wales.

The parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member is Whitbread PLC, registered in England and Wales. Copies of their accounts can be obtained from Whitbread Court, Houghton Hall Business Park, Porz Avenue, Dunstable, Bedfordshire. LU5 5XE.