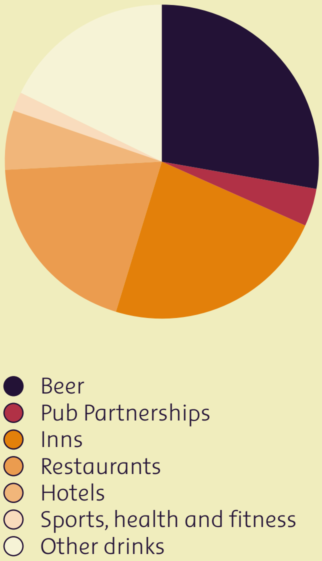
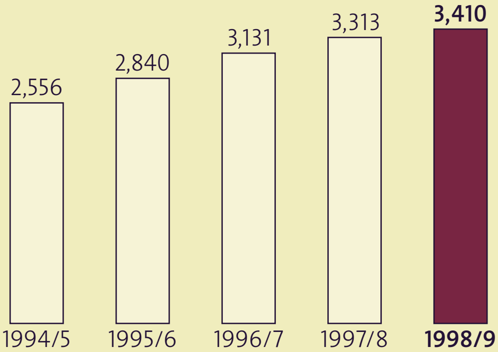
FINANCIAL HIGHLIGHTS

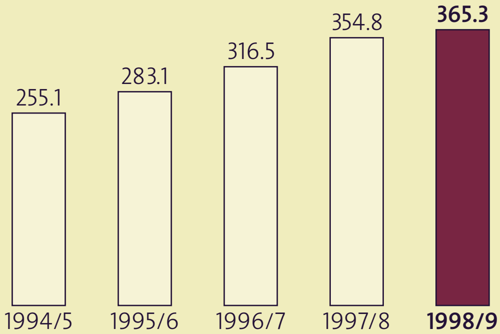
SEGMENTAL TURNOVER ANALYSIS 1998/9



TURNOVER INCLUDING JOINT VENTURES (£m)

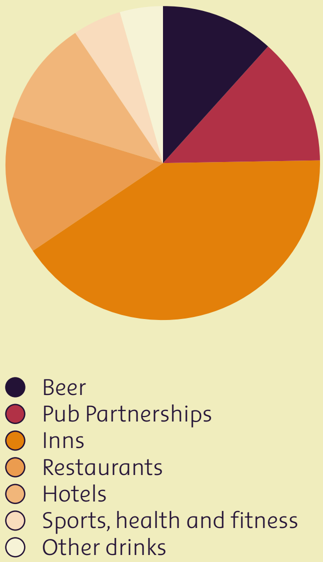


PROFIT BEFORE EXCEPTIONAL ITEMS AND TAX (£m)



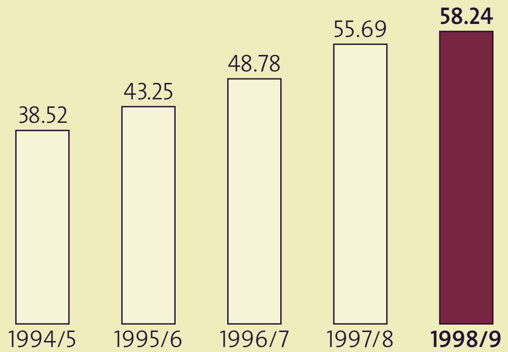
FINANCIAL HIGHLIGHTS

SEGMENTAL PROFIT ANALYSIS 1998/9

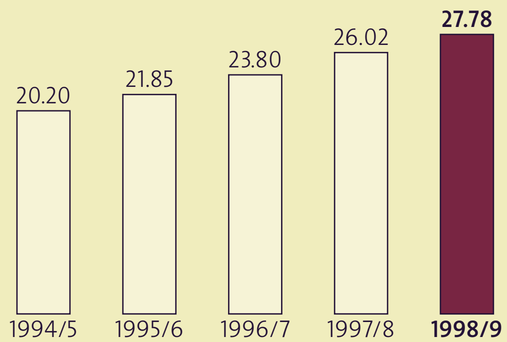


TO HAVE ACHIEVED A 4.6% INCREASE IN ADJUSTED EARNINGS PER SHARE IN DIFFICULT MARKET CONDITIONS WAS A CREDITABLE PERFORMANCE. THE SLOWDOWN IN CONSUMER SPENDING COUPLED WITH THE EFFECT OF DISPOSALS MEANT COMPARABLE TURNOVER WAS FLAT BUT PROFIT BEFORE EXCEPTIONAL ITEMS AND TAX GREW 3%.

ADJUSTED EARNINGS PER SHARE (p)



ORDINARY DIVIDENDS PER SHARE (p)



CHAIRMAN'S STATEMENT

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

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

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

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

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

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

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

Post balance sheet event
On 3 May 1999 Whitbread and Allied Domecq issued the following joint statement:

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

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

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

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

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

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

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

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

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

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

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

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

Michael Angus

4 May 1999

OUR BRANDS ARE OPERATED THROUGH SEVEN BUSINESS UNITS

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

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

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

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

Pub Partnerships manages the company's leased pub operation.

Pub Partnerships	Outlets
Pubs	1,730

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

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

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

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

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

*Includes hotels operated by other Whitbread businesses

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

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

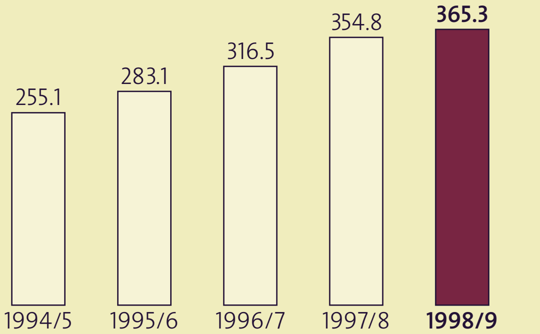
SUMMARY

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

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

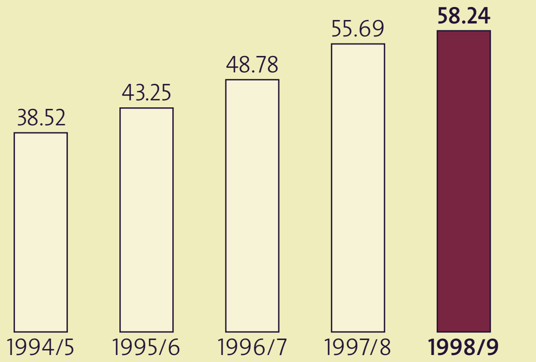
Group turnover, i.e. excluding sales by joint ventures, declined by 7.2%. The 1998/9 turnover includes the sales of Thresher until its transfer into First Quench. The comparative figure for 1997/8 included the sales of Thresher for the full year. If all sales relating to Thresher and First Quench are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

PROFIT BEFORE EXCEPTIONAL ITEMS AND TAX (£m)



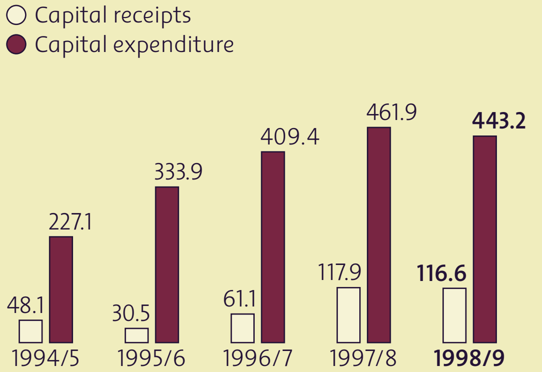
Profit before exceptional items and tax grew by 3.0%. The profit contribution from each division is described in the operating review which follows. All our businesses had to contend with an economic environment in which consumers were cautious. In response to this, all our businesses placed an even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

ADJUSTED BASIC EARNINGS PER SHARE (p)



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

CAPITAL EXPENDITURE (£m)



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

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

OPERATING AND FINANCE REVIEW

OPERATING REVIEW

Beer

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

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

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

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

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

Pub Partnerships

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

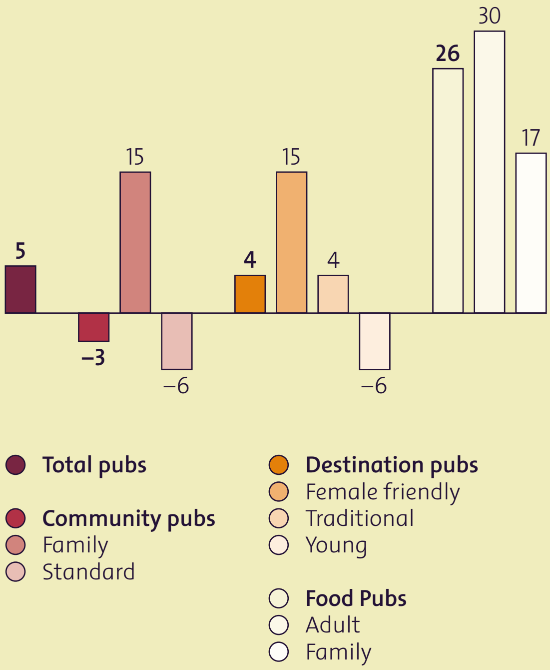
Pub Partnerships demonstrated its strength as a business which performs consistently throughout the economic cycle. A total of £89 million of positive cash flow was generated before financing costs and tax.

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

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

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

PUB MARKET GROWTH – THE NEXT FIVE YEARS (%)



Source: Whitbread research

Divisional performance – Beer Company	£m
Turnover	
1997/8	996
1998/9	**1,008**
Operating profit*	
1997/8	44.6
1998/9	**51.6**
Net assets	
1997/8	350
1998/9	**308**
Capital expenditure	
1997/8	45.5
1998/9	**47.2**

*Before exceptional items

Divisional performance – Pub Partnerships	£m
Turnover	
1997/8	155
1998/9	**145**
Operating profit	
1997/8	61.3
1998/9	**57.3**
Net assets	
1997/8	412
1998/9	**401**
Capital expenditure	
1997/8	15.5
1998/9	**13.8**
Capital receipts	
1997/8	33.0
1998/9	**45.0**

Inns

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

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

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

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

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

Restaurants

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

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

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

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

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

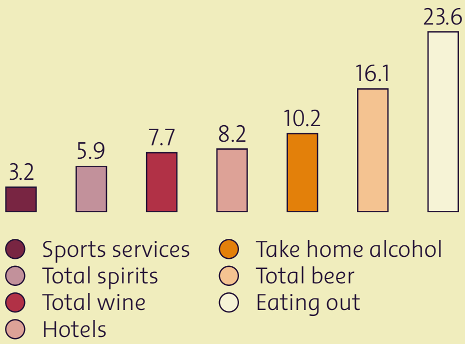
T.G.I. Friday's grew sales by 10% and achieved a small like-for-like sales improvement despite adverse market conditions. A new 'Authentic American' menu introduced in July proved extremely popular. Five new stores were opened bringing the total to 29 with three more under development.

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

Restaurants in Germany

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

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



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

Divisional performance – Inns	£m
Turnover	
1997/8	807
1998/9	**829**
Operating profit	
1997/8	171.9
1998/9	**179.1**
Net assets	
1997/8	1,221
1998/9	**1,291**
Capital expenditure	
1997/8	171.5
1998/9	**120.4**
Capital receipts	
1997/8	35.8
1998/9	**9.6**

Divisional performance – Restaurants	£m
Turnover	
1997/8	731
1998/9	**703**
Operating profit*	
1997/8	69.8
1998/9	**62.7**
Net assets	
1997/8	669
1998/9	**680**
Capital expenditure	
1997/8	82.4
1998/9	**76.0**
Capital receipts	
1997/8	5.7
1998/9	**32.8**

*Before exceptional items

Leading UK hotel groups

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

Source: Whitbread Estimates

Hotels

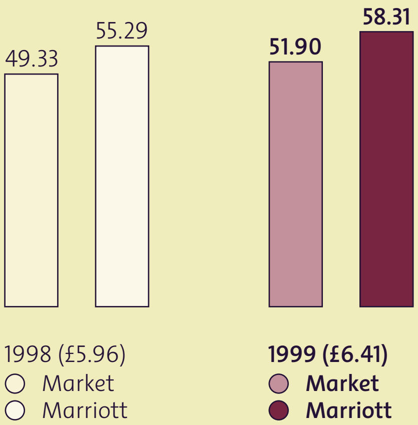
Operating profit grew 31% on sales which were 14% ahead. Like-for-like sales were up 4.9% after a very strong year for the Whitbread Hotel Company.

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

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

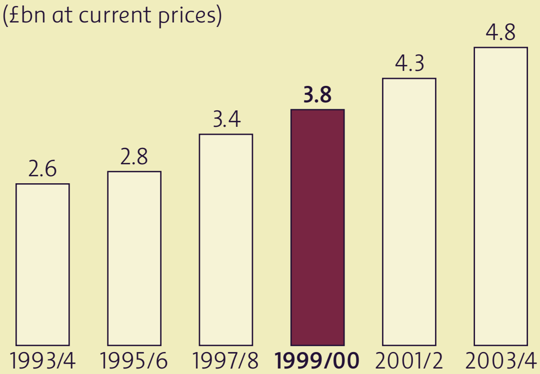
Travel Inn achieved occupancy of 87% for the year – the highest ever recorded by a UK hotel network. There are now 207 hotels with 10,474 rooms and a further 29 under development. Capital Travel Inn's three sites in London reached occupancy levels of 94% helping to confirm the strategy of building large,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

HOTELS: MARRIOTT VS UK MARKET ROOM YIELD (£)



Source: PKF/Arthur Andersen

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



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

Sports, health and fitness

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

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

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

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

Other drinks

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

Divisional performance – Hotels	£m
Turnover	
1997/8	195
1998/9	**223**
Operating profit	
1997/8	36.7
1998/9	**48.0**
Net assets	
1997/8	470
1998/9	**559**
Capital expenditure	
1997/8	90.7
1998/9	**78.5**
Capital receipts	
1997/8	63.0
1998/9	**0.8**

Divisional performance – Sports, health and fitness	£m
Turnover	
1997/8	63
1998/9	**78**
Operating profit	
1997/8	19.0
1998/9	**21.3**
Net assets	
1997/8	184
1998/9	**274**
Capital expenditure	
1997/8	43.4
1998/9	**96.2**

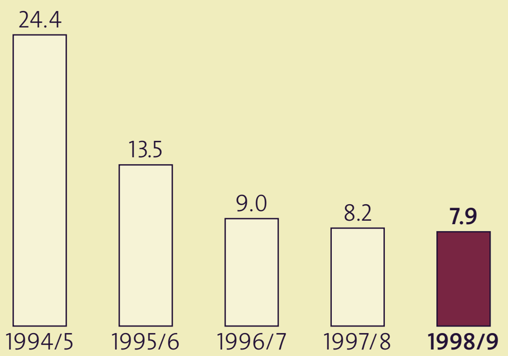
Divisional performance – Other drinks	£m
Turnover	
1997/8	632
1998/9	**634**
Operating profit	
1997/8	25.2
1998/9	**19.0**
Net assets	
1997/8	164
1998/9	**177**
Capital expenditure	
1997/8	6.8
1998/9	**4.8**

FINANCE REVIEW

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

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

INTEREST COVER (times covered)



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

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

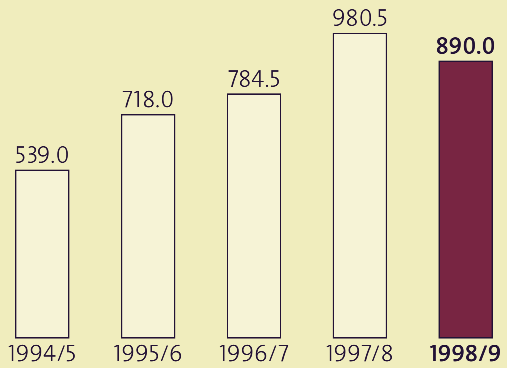
Taxation
The tax charge for the year was £75.5 million. The effective rate of tax on profit before exceptional items was 21.4%. The effective rate of tax continues to be lower than the standard UK corporate tax rate of 31%, principally because of the recent levels of capital expenditure. The resulting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

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

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

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

SHARE PRICE AT YEAR END (p)

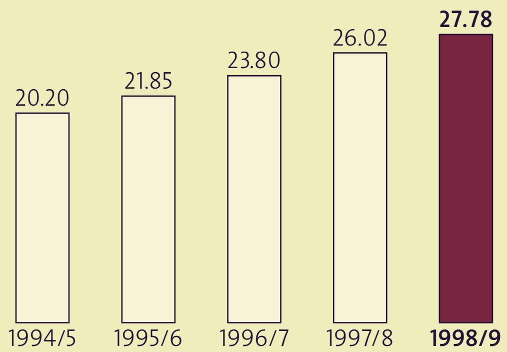


Shareholder return

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

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

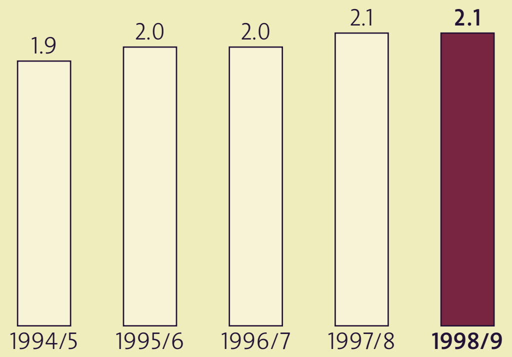
ORDINARY DIVIDENDS PER SHARE (p)



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

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

DIVIDEND COVER (times covered)



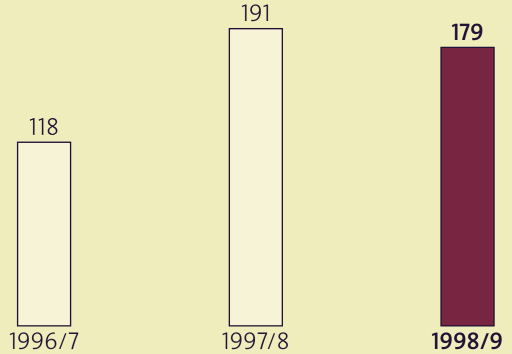
Cash flow

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

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

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

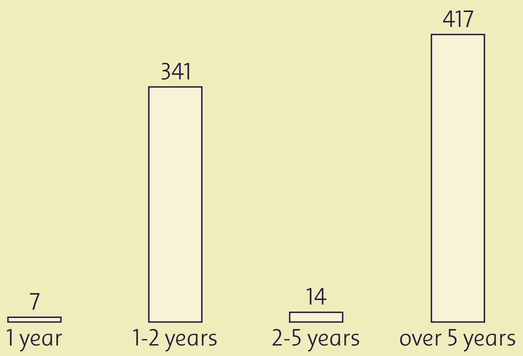
UNDERLYING CASHFLOW (£m)



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

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

DEBT PROFILE (£m)



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

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

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

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

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

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

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

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

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

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

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

Year 2000

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

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

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

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

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

The Euro

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

*Non-executive director

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

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

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

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

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

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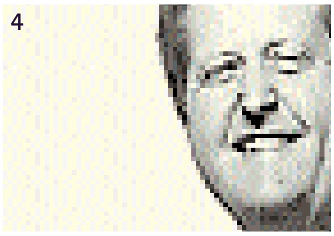
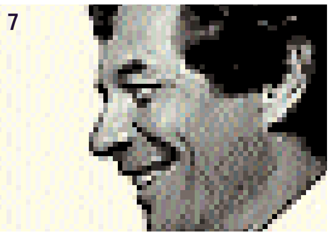
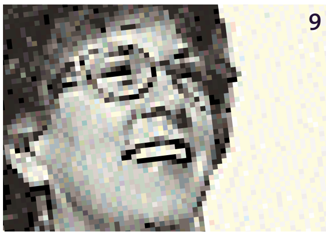
6 MILES TEMPLEMAN
Managing director of Whitbread Beer Company and chairman of Beefeater Restaurant & Pub, having previously been managing director of Thresher and group marketing director for Whitbread. He joined the company in 1985 and became a director in 1991. Before this, he was with Beecham Foods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

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

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







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

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

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

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

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

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

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

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

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

Details of the service contracts and interests of the directors in the company's shares are given on pages 21 and 24 to 25 respectively. Of the directors proposed for re-election at the forthcoming annual general meeting, David Richardson has a service contract with a notice period of two years. In common with all the other non-executive directors, Sir Michael Angus, Prue Leith, John Padovan and Karel Vuursteen do not have service contracts.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

No political donations were made during the year.

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

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

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

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

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

CORPORATE GOVERNANCE

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

The board of directors

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

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

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

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

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

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

Board committees

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

– Financial controls and procedures are set out in policy and procedures manuals, which are regularly reviewed and updated when appropriate.

– The internal audit function reports on the effectiveness of operational and financial controls across the group. The Audit Committee meets regularly with both the internal and external auditors to review their major findings and the resultant consequences.

– Limits of authority are prescribed for employees, all of whom are required to observe the company's Code of Business Ethics. The company's organisational structure allows the appropriate segregation of tasks.

– There are detailed appraisal and approval processes for capital expenditure and substantial revenue projects. In addition, a post-completion review of all major projects is undertaken.

– Treasury operations are conducted in accordance with detailed procedures and mandates. The Risk Committee reviews treasury activities monthly. This committee is chaired by the group finance director and comprises the strategic planning director, the group treasurer and other senior finance managers.

– Four-year business plans and one-year budgets are formulated, evaluated and approved annually by the board. Actual results and cash flows are reported monthly against budget and the previous year's figures. Revised profit and cash flow forecasts are prepared and reviewed monthly. Key risks are identified and action plans are prepared accordingly.

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

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

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

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

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

REMUNERATION REPORT

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

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

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

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

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

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

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

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

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

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

– either the growth in the company's adjusted earnings per share has exceeded the Retail Prices Index by more than six percentage points over a three-year period; or

– the company's total shareholder return ('TSR') has exceeded the average return of the FT-SE 100 companies over that period.

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

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

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

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

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

Directors' service contracts
The Remuneration Committee has reviewed the company's position with regard to directors' service contracts. These currently have two years' notice, the period having been successively reduced, from five to three years in 1993/4 and to two years in 1994/5. A recent survey of notice periods for executives in the FT-SE 100 companies shows that around half have directors' service contracts with a notice period of longer than twelve months. The committee has taken external advice from independent consultants and considers that at the present time it is in the company's best interests and in line with market practice to keep the two-year notice period in order to be able to retain and recruit directors of an appropriate calibre. The committee recognises that this does not follow the recommendations of the Combined Code and will continue to review the company's position on this issue.

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

Directors' pay and pensions for 1998/9

Directors' pay

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Directors' interests in shares

Shares

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

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

[1] on retirement on 16 June 1998

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

[3] on appointment on 5 May 1998

Share Options

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

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

[1] Executive Schemes options

[2] Sharesave Scheme options

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

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

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

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

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

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

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

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

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

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

Changes since 27 February 1999
As a result of the reinvestment of income arising from Personal Equity Plans, Martin Broughton, David Richardson, Miles Templeman and David Thomas acquired fewer than twenty shares each.

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

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

By order of the board
S C Barratt, Company Secretary

4 May 1999

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