

Annual Report and  
Accounts 2009/10

EAT SLEEP & DRINK  
**WHITBREAD**

## The Whitbread Way Forward

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

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

### Contents

Financial highlights	1
Group at a glance	2
Chairman's statement	4
Business review –	6
Chief Executive	6
Our strategy	10
Our people	12
Our customers	14
Hotels and Restaurants	16
Costa	24
Finance Director	28
Corporate responsibility	30
Key performance indicators	32
Group risks and uncertainties	34
Board of directors	36
Senior management	38
Directors' report	39
Corporate governance report	43
Remuneration report	47
Accounts 2009/10	57

## Group at a glance

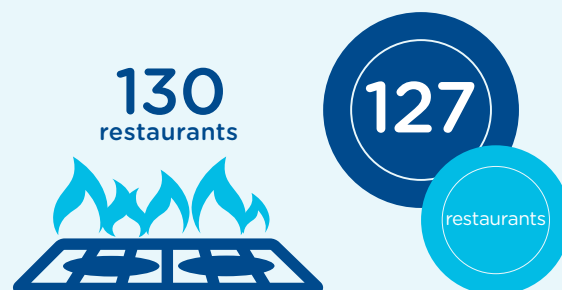
Whitbread is the UK's largest and fastest growing hospitality group.

### Hotels and restaurants

#### Our brands



#### Number of units



Premier Inn is the only UK hotel company to guarantee a good night's sleep.

Our pub restaurants offer great value family dining.



Coffee shops



COSTA



Costa Coffee is the second largest international coffee shop business.



## Business review – our people

Our people are at the heart of our business. It is important that we provide them with the development opportunities to reach their full potential.

**There is something very special about the people who work at Whitbread. We listen to our people, because they are best placed to understand what it is that our customers want. We want our people to flourish and it is important that we provide them with development opportunities so that they can reach their potential.**

### A culture of leadership

In 2009 we made significant steps to define our culture more clearly, with a revitalised core purpose and set of values – the Whitbread Way Forward. This was defined using a series of workshops and interviews with a wide cross-section of Whitbread people. At the same time we refreshed the corporate identity to more appropriately represent Whitbread.

A new Leadership Framework, which describes the skills expected from our leaders, was developed during the year. It has already become an important tool in supporting the process of leadership engagement behind our goal of customer focus. It has reinvigorated the leadership development agenda to engage our leaders in how we will lead the Whitbread Way Forward, and achieve stretching personal and team development.

### YOUR SAY

In 2009, Whitbread relaunched its engagement survey, YOUR SAY into the business. It accurately measures engagement, in a way that is meaningful to every person in the organisation and enables timely action.

The 2009 survey measured engagement through 18 questions, and provided a promising start. The results can be seen in the table below. All parts of the business outperformed the benchmark UK norm group. Following the publication of the results, action plans were developed and implemented.

### 2009/10 team engagement scores

Whitbread overall	60%
Whitbread Hotels and Restaurants	60%
Costa	61%
UK norm group	54%

In 2010 the survey has been expanded to help us understand how our teams view our new corporate responsibility strategy, Good Together, and their experience of customer focus in Whitbread.

In the future, employee engagement will be reported as part of the WINcard, demonstrating our genuine commitment to driving engagement.

### Learning & Development

This year we launched our groundbreaking apprenticeship programme, which uniquely gives all of our team members within Whitbread Hotels and Restaurants the opportunity to gain a nationally recognised qualification in the workplace. The programme is a real demonstration of our strategic approach and commitment to having the best skilled team in the industry.

Alongside the suite of vocational qualifications we also launched our Skills for Life programme, providing tutoring and support in the vital life areas of literacy and numeracy. To date we are proud to announce that over 1,400 qualifications have been awarded to our team members.

The Government inspectorate, Ofsted, has graded the hospitality and catering provision that is offered to our team members as “Outstanding”. Meanwhile the Skills for Life programme has been awarded the Business in the Community “Big Tick”.

We have successfully launched into the business a full suite of management development programmes called Shooting Stars. The objective of these programmes is to assist all our operational managers to develop to the next suitable role in their career with us. The programmes help us to develop people all the way from Hotels and Restaurants team member to Regional Operations Manager.



“Being given a chance to gain qualifications has opened my eyes to the opportunities within Whitbread.”

**Leon Commissiong**, Chef, Orchard Beefeater, Ruislip

Over the past 18 months, over 600 of our people have been, or currently are being, developed through these programmes. Whitbread Hotels and Restaurants appoint over 75% of General Managers internally.

In Costa we have relaunched our in-store induction and training processes. As coffee is at the heart of Costa's business, we have developed the Barista Maestro workshop on coffee-making skills. Workshops are held at a number of Costa training academies around the world.

Costa has also developed the Shooting Stars programme. It has been operational within the Costa business since 2007 and comprises core skills development and training on management behaviours over a six-month period.

In 2009 the next stage of development to enable Costa's assistant managers to become store managers was launched. The Rising Stars programme follows a similar format to Shooting Stars and so far over 50% of attendees have been placed into a store manager role.



“Coffee is not only my profession but also my passion.”

**Gabor Kamondi**, Barista of the Year for 2009



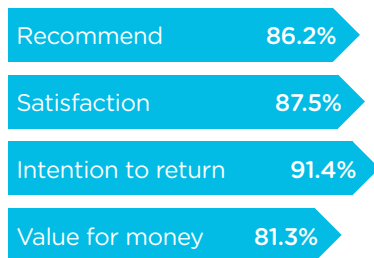
“Completing my Skills for Life programme has given me a huge confidence boost.”

**Chloe Croft**, Receptionist, Gatwick Crawley East Premier Inn

## Business review – our customers

Understanding our customers better than anyone else will give us real competitive edge.

### Guest satisfaction scores – Premier Inn



Source: Surveys conducted independently by ORC International

### Customer focus

Customer focus is about understanding our customers. It is about targeting specific customer segments and providing the products and services that people want at a price they are prepared to pay.

We learn about our customers from talking to them directly and from listening to our people who serve them every day. We also look at our competitors to understand what they offer to their customers and what we might learn from them. Once we have that information we aim to get as much insight on our customers as we can and then use that to find ways in which to serve them even better.

This is all part of what we call our relentless focus on the customer.

### Customer segmentation

During 2009/10 we embarked on customer segmentation projects across Whitbread. The initial phases of the segmentation work have been completed for Premier Inn and Costa, while the project for the pub restaurants is in progress. The aim was to define customer segments, establish the size of the opportunity and Whitbread's share of each segment. This deep insight allows us to develop strategies to build on successes and to win new customers.

In Premier Inn we will give greater focus to new parts of the leisure and business markets. For example we

will look at ways of attracting more 'retired sightseers' and 'short break travellers' to stay with us. In Costa we will be looking for ways to meet the needs of the different customer groups identified – from the 'grab and go commuters' to those looking to spend more time relaxing with a coffee. By understanding our customers in this way we will be able to look after them better than ever before.

### Committed to listening to customers

We hold regular customer focus groups to explore the thoughts and feelings of customers. We consider customer feedback in all decision making.

### Premier Inn guest satisfaction programme

Key to delivering the Whitbread vision of being the most customer-focused hospitality company in the world is ensuring that we accurately and robustly measure customer feedback. It is important that we always focus on what's important to the customer at both a brand and outlet level.

The Premier Inn guest satisfaction programme e-mails approximately 1.5 million customers within 24 hours of their stay to ask them for their feedback. We receive a massive 500,000 responses every year, making the Premier Inn guest satisfaction programme one of the biggest and most robust programmes in Europe.



We focus on comfort, quality and value for money. All Premier Inn room attendants are trained to deliver the standards our customers expect



#### Premier Offers – inspired by our customers

A clear example of how Whitbread has used customer feedback to inform strategic decision making is 'Premier Offers'.

Using the Premier Inn guest satisfaction survey we conducted a major research project to understand the needs of leisure users and price elasticity.

Since the launch of Premier Offers we have seen significant increases in weekend occupancy and a huge improvement on customer value for money scores.

#### Costa customer satisfaction

Costa uses independent market research agency, YouGov, to deliver robust feedback from our customers. In addition

Costa obtains insight from key competitors in order to provide benchmarking data.

Costa has significantly improved its customer scores achieving a score of 73% for overall satisfaction. The results of this study help to inform strategic decisions and marketing campaigns such as the successful '7 out of 10' campaign.

#### Brand standards – Hotels and Restaurants

Whitbread Hotels and Restaurants use an independent audit company, 'Hospitality Now', to measure compliance to brand standards. Every site is audited at least twice per year using a 1,000 question audit to keep us delivering a consistent product to all our customers on every visit.

#### Brand standards – Costa

Costa uses customer satisfaction data to identify what is really important to the customer and, from this, has developed a robust set of standards which can be measured to track operational performance. This is achieved through a mystery customer programme which is conducted by independent agency, Re Act, together with our brand standards audit, which is completed by our internal team of auditors. Over the past year Costa has completed over 9,000 mystery customer visits and brand standards audits, with stores receiving a minimum of one visit per quarter.

#### YouGov BrandIndex for hotels

Rank	Brand
1	Premier Inn
2	Hilton
3	Travelodge
4	Holiday Inn

#### YouGov BrandIndex for coffee shops

Rank	Brand
1	Costa
2	Caffé Nero
3	Starbucks
4	Coffee Republic

Both Premier Inn and Costa use the YouGov BrandIndex to benchmark performance relative to other Brands. YouGov is the only daily measure of public perception of consumer brands across a wide selection of industry sectors. Respondents are drawn from the YouGov on-line consumer panel and 2,000 on-line interviews are conducted every day in the UK for the BrandIndex measure.

Source: YouGov BrandIndex scores from quarter 1 2010



## Business review – Hotels and Restaurants

The budget sector is the most attractive of the UK hotel market and Premier Inn is the best operator of budget hotels.



**Patrick Dempsey**  
Managing Director,  
Whitbread Hotels and Restaurants

**Our Hotels and Restaurants have achieved a strong performance in the challenging operating environment of 2009/10. Total revenues increased by 3.2% to £1,096.0 million with pre exceptional operating profit down 3.1% year on year to £247.0 million. Like for like sales were positive in the fourth quarter by 1.6%, but down 1.8% over the year.**

We have strengthened Premier Inn's status as the leading budget brand by implementing a thorough commercial action plan to drive our revpar forward through a volume-led strategy. This included investing in sales and marketing, widening our distribution channels and launching Premier Offers in June 2009. Our new website, [www.premierinn.com](http://www.premierinn.com) went live in November and has increased visits

by 80%. The site now attracts over three million visits per month.

Premier Inn maintained its outperformance versus the hotel market, with business and leisure customers continuing their flight to value. Total sales at Premier Inn are up 4.7% to £629.8 million (2008/09: £601.5 million) with like for like sales down by 4.3%. Regional revpar was down 6.4% against a decline of 9.6% for the total regional hotel market.

**Premier Inn maintained its outperformance versus the hotel market.**

Hotels and Restaurants	2009/10 £m	2008/09 £m	% Change
Premier Inn revenues	629.8	601.5	4.7
Restaurants revenues	466.2	460.1	1.3
Total revenues	1,096.0	1,061.6	3.2
Premier Inn like for like sales %			(4.3)
Restaurants like for like sales %			1.7
Operating profit, pre exceptional	247.0	254.9	(3.1)
Operating profit, post exceptional	259.9	240.4	8.1

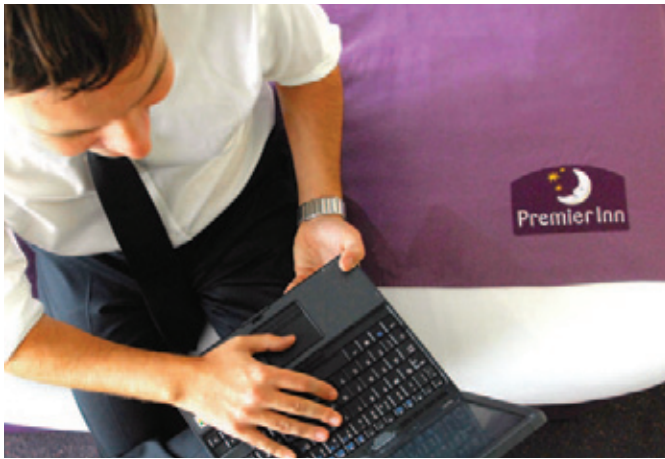


## Winning corporate accounts

"We have had great success in attracting new large corporate customers to Premier Inn. Business account sales grew to £175.4 million in 2009/10."

**Paul Flaum**  
Chief Operating Officer,  
Whitbread Hotels and Restaurants





For the third year running Premier Inn won Best Hotel Group Brand at the Business Travel Awards

Premier Inn is the leading choice brand among business travellers and, for the third year running, won Best Hotel Group Brand at the Business Travel Awards. Business guests can save over £33 per night compared to 3 and 4 star hotels and we attracted over 20 large corporate customers such as E.On, Honda, Lidl and some central Government departments to switch to Premier Inn during the year. Increased sales activity helped to grow business accounts with users up 13% on last year. Sales grew by 2.6% to £175.4 million.

In 2009/10, Premier Inn opened 2,240 new rooms (UK 1,624 rooms) and refurbished over 8,000 rooms. At the year end Premier Inn had a total of 42,799 rooms in 588 hotels (UK 41,720 rooms).

Eleven new Premier Inns were opened in regional locations and one new hotel in London, where Premier Inn has maintained its position as London's leading budget hotel operator. We have commenced development of a new 267 bedroom budget hotel at Stratford, located adjacent to the Olympic Stadium, creating some 90 jobs.

Premier Inn also announced its first purpose built green hotel and Beefeater Grill restaurant. It represents the latest stage in sustainable technology and follows our pioneering green hotel pilot

in Tamworth, Staffordshire, which opened its doors to guests in December 2008. The 60 bedroom Premier Inn at Burgess Hill, due to open in autumn 2010, will adopt the best performing sustainable construction materials to deliver 70% carbon and 60% water savings.

Our continuous focus on tight cost control, through both procurement and operating efficiencies, has helped underpin our operating margin.

Internationally, we opened three new hotels this year across the UAE and India. We acquired the 50.1% stake we did not already own in the Indian joint venture with real estate developer Emaar-MGF and will take forward the development of new properties independently.

Our restaurants continued to outperform the market as we attracted customers looking for great value food and drink in a comfortable environment. We refurbished 95 restaurants, spending on average £125,000 per site, to ensure a quality environment with value for money at the heart of everything we do. Our restaurants increased customer recommendation metrics by 5.6%.

Revenues have increased by 1.3% to £466.2 million (2008/09: £460.1 million). Our restaurants achieved consistent like for like sales growth of 1.7%, driven by increases in average spend and like

for like covers increase of 1.4%. In 2009/10 we opened five new restaurants. Some 333 of our 373 strong restaurant portfolio are located adjacent to a Premier Inn. This joint-site strategy enables us to deliver a superior customer experience and generate enhanced return on capital.

#### Strategic drivers

The key strategic drivers for the Hotels and Restaurants business are:

**Premier Inn** - volume share gain to 80% occupancy;

**Restaurants** - market share through a volume and value strategy;

**Development** - growth in UK network from 42,000 to 55,000 rooms; and

**International** - establish Premier Inn in existing markets.

## Increasing leisure business

"Premier Offers is designed to attract leisure customers who are looking for a great deal. We now own the £29 price point in the market."

**Gerard Tempest**  
Marketing Director,  
Whitbread Hotels and Restaurants







Examples of our great value for money offers

### KPIs

The WINcard results for Whitbread Hotels and Restaurants are shown below:

2009/10 WINcard results	
PBIT	●
Profit conversion	●
Brand standards	●
Guest recommend (Premier Inn)	●
Guest recommend (restaurants)	●
Like-for-like sales growth	●
Team turnover	●
Health and safety	●

More information on the WINcard, together with the Group WINcard results, can be found on pages 32 and 33.

### Markets and competition

Premier Inn's 42,000 rooms account for 6% of the total UK hotel market. Today four brands account for 80% of the budget sector of the market. The sector has strong long-term growth prospects with projected compound annual growth rate of approximately 10% over the next ten years.

The total UK hotel market has an annual value of around £10.9 billion, of which approximately £1.6 billion can be attributed to the budget sector. In 2009/10, Premier Inn outperformed the budget sector in terms of regional RevPAR by 2.1% points.

Whitbread's pub restaurants compete in the total out-of-home eating market of £40 billion. Whitbread has outperformed the pub restaurant sector of the market over the last two years in terms of like-for-like sales.

### Our people

We are dependent on our people to deliver our brand promises, day in and day out. We offer every team member the chance to work towards NVQs and Skills for Life. In 2009 Whitbread achieved an 'Outstanding' grade for our Apprenticeship training programme following an inspection by Ofsted. This year we will help our people gain over 3,000 new qualifications.

We have continued to be recognised for quality and value. Premier Inn has been named the leading economy hotel brand in Europe for the second year running. Premier Inn also scooped the Business Travel Awards Best Hotel Group for the third year running.

This is an excellent achievement for the Premier Inn brand and is a testament to the hard work and dedication of our team members.

A photograph of an older couple standing together and smiling. The man, on the right, is wearing a red button-down shirt and light-colored trousers. The woman, on the left, is wearing an orange and white striped short-sleeved shirt and blue jeans. They are both looking at a large, unfolded map of London that the man is holding. The map shows various landmarks and areas, with headlines like 'THE GOLDEN HENRI', 'ST PAUL'S It's more than just the Dome...', and 'LONDON ZOO'. The background is blurred, showing what appears to be an indoor setting with purple lighting.

Opening  
new  
locations  
where our  
customers  
want to be

"London is an important growth market for Premier Inn and since the start of 2009 we have acquired 13 new locations at sites ranging from Greenwich and Islington to right next door to the Olympic Village in Stratford."

**Mark Anderson**  
Commercial and Property Director,  
Whitbread Hotels and Restaurants





Whitbread Hotels and Restaurants' team members aim to raise £1 million for WaterAid

### Corporate responsibility

We promise our guests a good night's sleep. Our people serve great value food and drink in clean, comfortable and well looked after environments. We intend to deliver this in a sustainable manner. Key areas of progress for the Hotels and Restaurants team have been:

- We will open our first purpose-built green hotel and Beefeater Grill at Burgess Hill, in West Sussex. This follows Whitbread's pioneering green hotel pilot project in Tamworth, Staffordshire. The 60-bedroom Premier Inn at Burgess Hill, due to open in the autumn of 2010, will adopt the best-performing green technologies from our test in Tamworth, targeting 70% carbon and 60% water savings. Adjacent to the hotel, we will develop our first low-carbon restaurant, a 220-cover Beefeater Grill;
- In 2009/10 we rolled out an Environment and Energy Guide to all outlets. Our teams now have information and tools to help reduce energy and water wastage. Teams at our support centres can also see how their efforts can make a difference with energy monitors located in reception areas;
- We have been working in partnership with our waste management providers Veolia, and with Biogen, towards our target of achieving 80% of waste diverted from landfill by 2012;
- We are very proud of our commitment to the communities where we live and work. We have raised over £300,000 for WaterAid during 2009/10, a good start towards our £1 million target; and
- We offer development opportunities for our team members as described on pages 12 and 13.

### Risks and uncertainties

Details of the risks and uncertainties for the Group are outlined on pages 34 and 35. Many of the risks and uncertainties at Group level are also applicable to Whitbread Hotels and Restaurants.

Risks specific to the hotels and restaurants business include:

- the integrity of booking channels and other key systems;
- the failure to deliver rooms growth profitably;
- the failure to deliver market leading performance;
- the failure to attract and maintain high calibre teams;
- the failure of health and safety policies and procedures;
- the inability to achieve profitable international growth; and
- the potential financial failure of a key third party supplier.

Mitigation plans are in place for each of the risks and uncertainties outlined above and are reviewed by the Whitbread Hotels and Restaurants Management Board on a quarterly basis. The potential failure of a key third party supplier has been a particular focus during the year due to the general economic conditions.

## Improved guest scores

"We listen to our people, because they are best placed to understand what it is that our customers want."

**Patrick Dempsey**  
Managing Director, Whitbread  
Hotels and Restaurants



## Business review – Costa

Costa delivered a strong and accelerating performance during the year.



**John Derkach,**  
Managing Director, Costa

2009/10 was an outstanding year for Costa. Pre exceptional operating profit grew by 59.5% to £36.2 million; 312 net new stores were acquired or opened; like for like sales increased by 5.5%; and our international business became profitable.

Costa also made its first acquisition, Coffeeheaven, with stores in Poland and other Central European countries. Costa operates in 25 countries and is now the number two international coffee shop operator with 1,600 stores: 1,069 in the UK; and 531 overseas.

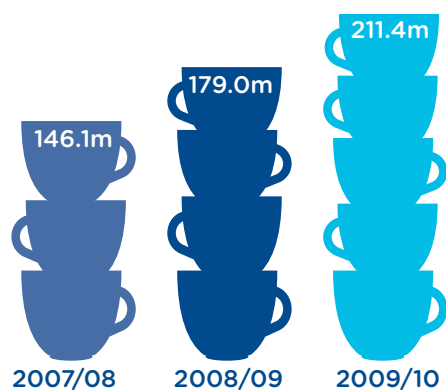
In addition to the 89 Coffeeheaven stores acquired at the end of the year, Costa opened 223 net new units in 2009/10. Of these, 188 were in the UK, further demonstrating that the brand's domestic market is far from saturated. Sales performance improved strongly across the year, confirming the brand's resilience, even in a recessionary environment.

Our international business became profitable in the year, despite continued investments in China and Russia. This reflected a strong contribution from our franchise businesses and continued progress in the joint ventures.

Costa's commitment to delivering an unbeatable coffee experience gained momentum with three significant initiatives:

- Our '7 out of 10' campaign emphasised how consumers are discerning in their coffee choice. The campaign played a central role in enhancing like for like sales which grew, almost entirely, as a consequence of more customer visits;
- The addition of Costa's new Flat White coffee added another option for coffee lovers, with over a million Flat Whites sold since the launch at the end of January; and
- Costa launched the sector's first electronic loyalty scheme and customer database. The Costa Coffee Club card enables

**Total number of cups of Costa coffee consumed worldwide<sup>1</sup>**



Costa	2009/10 £m	2008/09 £m	% Change
System sales	515.7	401.9	28.3
Revenues	340.9	276.3	23.4
Like for like sales %			5.5
Operating profit, pre exceptional	36.2	22.7	59.5
Operating profit, post exceptional	35.9	22.6	58.8

<sup>1</sup> Based on coffee volumes produced at our roastery in Lambeth.



# COSTA COFFEE



## Costa's international growth opportunity

"China has a large, fast-growing urban population and is one of Costa's core international target markets together with India, the Middle East, Russia and Central Europe."

**Andy Marshall**  
Chief Operating Officer,  
Costa International





LOVE FREE COFFEE?  
**JOIN THE CLUB.**

**COSTA COFFEE CLUB**  
Enjoy FREE Costa coffee when you collect points.

PICK UP A CARD.  
JOIN THE COFFEE CLUB TODAY.

WE MAKE IT BETTER **COSTA**

Customers can now earn points with every purchase using the new Costa Coffee Club card. Since its launch in March 2010 over one and a half million customers have used their cards.

customers to earn points with every purchase at Costa. In the first month since its introduction on 4 March this year, well over one million cards have been used by Costa customers.

During 2009/10 Costa demonstrated outstanding growth momentum, forged even stronger engagement with its customers and set the platform for growth.

### Three key themes

**Outstanding, consistent growth trends** – in both sales and number of units;  
**Strong, customer-driven market position** – a compelling proposition and robust business model; and  
**Significant future growth potential** – in the UK and overseas.

### Corporate responsibility

The key elements of the Costa corporate responsibility agenda are:

- our coffee which will be sourced entirely from Rainforest Alliance accredited farms;
- our milk which we can trace 100% to a single UK supplier based in the south-west and is delivered in lightweight plastic pouches, which significantly reduce waste; and
- our new, more environmentally-friendly, takeaway cup.

We are also very proud of the Costa Foundation which was set up to fund the building of schools in coffee-growing regions. More details and case studies are on the

Good Together website (see pages 30 to 31).

### KPIs

The WINcard results for Costa are shown below:

2009/10 WINcard results	
PBIT	●
Cash	●
Store openings	●
Brand standards	●
Guest measure	●
Like-for-like sales growth	●
Team turnover	●
Health and safety	●

More information on the WINcard, together with the Group WINcard results, can be found on pages 32 and 33.

### Markets and competition

It is estimated that there are around 9,400 coffee shops in the UK, with 4,000 of these being branded coffee shops. The growth projection for this market is around 8%. Costa is well positioned with 1,000 stores and we plan to double in size in the UK. This is a very competitive market which Costa leads in terms of numbers of stores, superior coffee and service.


Overseas, Costa is focused on large and fast growing regions such as China, India, Russia, Central Europe and the Middle East, where it sees significant potential for the brand.

### Our people

The very successful year Costa has had reflects the excellent teams in its stores. Our very low employee turnover is good evidence of the strength of those teams which is backed up by the training academies which focus on the importance of coffee making skills.

### Risks and uncertainties

Many of the risks and uncertainties at Group level are also applicable to Costa. Some more specific risks are: failure to achieve growth targets; failure of a franchise, joint venture partner or third party supplier; failure of a significant health and safety procedure; and interruption of production at the Costa roastery.



Grab a Costa  
on the go

"Costa is the UK's largest  
coffee shop brand with  
over 1,000 stores."

**Adrian Johnson**  
Chief Operating Officer,  
Costa UK





[www.whitbread.co.uk](http://www.whitbread.co.uk)

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