

Company registration number 769170

TRAVELODGE HOTELS LIMITED

Report and financial statements

For the year ended 31 December 2008

TUESDAY



AL10R9ZV

A10

19/05/2009

99

COMPANIES HOUSE

TRAVELODGE HOTELS LIMITED

REPORT AND FINANCIAL STATEMENTS 2008

CONTENTS

	Page
Officers and professional advisers	1
Directors' report	2 - 5
Statement of directors' responsibilities	6
Independent auditors' report	7 - 8
Profit and loss account	9
Statement of total recognised gains and losses and note of historical cost profits and losses	10
Balance sheet	11
Notes to the financial statements	12 - 22

TRAVELODGE HOTELS LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Grant Hearn
Jon Mortimore
Guy Parsons
Paul Harvey

COMPANY SECRETARY

Jon Mortimore

REGISTERED OFFICE

Sleepy Hollow
Aylesbury Road
Thame
OX9 3AT

BANKERS

The Royal Bank of Scotland PLC
135 Bishopgate
LONDON
EC2M 3UR

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
LONDON
E14 4BB

SOLICITORS

Addleshaw Goddard
150 Aldersgate Street
LONDON
EC1A 4EJ

INDEPENDENT AUDITORS

Pricewaterhouse Coopers LLP
Chartered Accountants and Registered Auditors
1 Embankment Place
LONDON
WC2N 6RH

TRAVELODGE HOTELS LIMITED
DIRECTORS REPORT AND FINANCIAL REVIEW

BUSINESS REVIEW

Travelodge is the no. 1 hotel brand in the UK⁽¹⁾ offering low cost, budget accommodation from 368 hotels (26.1k rooms) in the UK, Ireland and Spain.

The Company's strategy is to grow profitability and cashflows by increasing the supply of budget hotel accommodation (via a lease financed model), whilst continuously improving efficiencies and reducing costs to reinvest in even lower prices to drive customer demand into all new and existing hotels.

KEY HIGHLIGHTS

During the year the financial position of the Company improved. The key highlights for the year are summarised below:

- **Brand recognition very strong**
 - maintained at 98%
 - No 1 hotel brand in UK⁽¹⁾
- **Good revenue growth in UK**
 - up 19%
 - London up 40%
 - rooms sold up 9% to 6.0m
- **EBITDA £57.1m**
 - up 8%
- **Opened 39 new hotels**
 - 3,844 rooms
 - 25% in London
- **Development pipeline robust**
 - currently building 16 hotels (1,636 rooms)
 - secured planning 37 hotels (3,982 rooms)
- **Covenant strong**
 - rent cover: 1.74x⁽²⁾
 - cash at bank: £27.9m
 - net assets £799.0m

(1) BDRC: 2008 Prompted Awareness

(2) Number of times rent can be financed from EBITDAR (earnings before interest, tax, depreciation amortisation and rent)

TRAVELODGE HOTELS LIMITED
DIRECTORS REPORT AND FINANCIAL REVIEW

RESULTS – BEFORE EXCEPTIONALS

	2008	2007	Growth
	£m	£m	%
Revenue	287.0	241.5	19%
EBITDAR⁽¹⁾	134.2	115.2	17%
Rent	(77.1)	(62.2)	-24%
EBITDA⁽²⁾	57.1	53.0	8%
Depreciation - pre reval	(30.8)	(25.7)	
Operating Profit - pre reval	26.3	27.3	
Depreciation from reval ⁽³⁾	(8.3)	-	
Reported Operating Profit	18.0	27.3	
 Rent Cover⁽⁴⁾	 1.74x	 1.85x	 -0.11pts
Room sold (million)	6.0	5.5	9%
Occupancy (%)	74%	77%	-3pts
Rate (£)	44.0	40.9	7%
Revpar⁽⁵⁾ (£)	32.3	31.5	3%

(1) Earnings before interest, tax, depreciation amortisation and rent

(2) Earnings before interest, tax, depreciation and amortisation

(3) Depreciation from revaluation in 2007

(4) Number of times rent is covered by EBITDAR.

(5) Revenue per available room

EBITDA grew 8% to £57.1m (2007: £53.0m) primarily due to revenue per available room (revpar) growth in comparable hotels of 3%, continued strong cost control (mainly focused on flexing hours worked to volume of rooms sold) and growth from maturing hotels opened in 2007 and new hotels opened in 2008.

Depreciation of £39.1m (2007: £25.7m) was £13.4m higher mainly due to increased depreciation charge resulting from the asset revaluation at December 2007 (of £8.3m, 2007: £nil) and new and maturing hotels (which incur a fixed depreciation charge that does not recognise the 18 – 24 month period it historically takes a new hotel to achieve its mature revpar trading level).

Operating profit before depreciation on revaluation was £26.3m (2007: £27.3m). Reported operating profit was £18.0m.

BALANCE SHEET

The balance sheet is summarised below:

	2008	2007
	£m	£m
Fixed assets	566.4	574.3
Net current assets	274.9	260.0
Creditors and provisions	(42.3)	(44.0)
Net Assets	799.0	790.3

FUNDING OF GROUP

Travelodge Hotels Limited is a member of a group which finances its operations through a mixture of bank debt, a Eurobond note, trade credit and share capital. The ultimate parent company is Travelodge Limited and Travelodge Hotels Limited has guaranteed certain of the obligations and liabilities of the debt under a number of banking agreements which were entered into by the group of companies controlled by Travelodge Limited.

TRAVELODGE HOTELS LIMITED
DIRECTORS REPORT AND FINANCIAL REVIEW

FUNDING OF GROUP (CONTINUED)

In common with many other high growth private equity held businesses, the funding status anticipates rapid growth with debt repayment (which is bullet in nature) funded by either a refinancing or disposal event.

The majority of the bank debt (58%) is not due for repayment until 2014 to 2016 (with the majority of the balance of the bank debt due for repayment in 2017).

The Eurobond is held by the same parties as the equity and is not due for repayment until 2017.

INTEREST RATE RISK

The Company finances its operations through borrowings. The Company borrows at fixed and floating rates and uses interest rate swaps to generate the desired interest profile. Company policy is to comply with the terms and conditions of the loan facilities.

DIVIDENDS

During the year no dividends were paid (2007: £nil). This represented a payment of £nil per share (2007: nil). No dividends are proposed for the year ended 31 December 2008.

DIRECTORS AND THEIR INTERESTS

The Directors, who served throughout the year and up to the date of signing the financial statements were as follows:

Paul Harvey
Grant Hearn
Jon Mortimore
Guy Parsons

There were no beneficial interests of the Directors and their immediate families in the Company or any other companies in the Group, other than those disclosed in the parent holding company, Travelodge Limited.

No Director has had a material interest, directly or indirectly, at any time during the year in any contract significant to the business in the Company.

INSURANCE

The Company maintains insurance in respect of Directors and officers against any such liabilities are referred to in section 309A of the Companies Act 1985.

DONATIONS

The charitable donations made by the Company and charged in the accounts were £500 (2007: £2,500). There were no political donations during the year (2007: £nil).

DISABLED PERSONS

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

TRAVELODGE HOTELS LIMITED
DIRECTORS REPORT AND FINANCIAL REVIEW

EMPLOYEE INVOLVEMENT

The Board recognises that its employees are the most important asset of the Company. The Company is an equal opportunity employer and is committed to ensuring no employee or applicant is treated less favourably on grounds of race, religion, gender, age, ethnic origin, disability or sexual orientation.

Employees are encouraged to become members of the Company stakeholder pension scheme.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company is exposed to financial risk through its assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The most important components of financial risk are interest rate risk, credit risk, liquidity risk, cash flow risk and price risk.

Due to certain of the Company's assets being pledged as security for the loans of the immediate parent companies the financial risks the Directors consider most relevant to the Company are interest risk and liquidity risk. These risks are mitigated by using interest rate swaps and the nature of the bank facilities of the immediate parent companies. The Company is subject to an interest charge on its intercompany debt. This charge is based on the cost to the Group of the external debt held. In order to mitigate the risk of changes in interest rates, the Group borrows at fixed and floating rates, and uses interest rate swaps to generate the desired interest profile.

Group risks are discussed within the Annual Report of the ultimate parent company, Travelodge Limited, which does not form part of this report.

INDEPENDENT AUDITORS AND STATEMENT OF PROVISION OF INFORMATION TO AUDITORS

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditors are unaware;
- each Director has taken all the steps that he/she ought to have taken as a Director in order to make himself / herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

During the year Deloitte & Touche LLP resigned as auditors to the company, and the directors appointed PricewaterhouseCoopers LLP to fill the casual vacancy. PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

ELECTIVE RESOLUTIONS

The Company has passed elective resolutions to dispense with the laying of the Annual Report and Accounts before the Company in a General Meeting, the appointment of auditors annually and the holding of Annual General Meetings, pursuant to sections 252, 386 and 366A respectively of the Companies Act 1985.

Approved by the board of directors and signed by order of the Board

Jon Mortimore
Company Secretary
30 April 2008

TRAVELODGE HOTELS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- state whether applicable UK Accounting Standards have been followed;
- make judgements and estimates that are reasonable and prudent Paragraph 12 of Part II of Schedule 4 to CA 1985 requires that the amount of any item "shall be determined on a prudent basis".;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements This bullet does not apply to small and medium sized companies as defined by CA 1985
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TRAVELODGE HOTELS LIMITED

We have audited the financial statements of Travelodge Hotels Limited for the year ended 31 December 2008 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses (the note of historical cost profit and losses) and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TRAVELODGE HOTELS LIMITED (CONTINUED)

Opinion

In our opinion :

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its profit and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985;
- the information given in the Directors' Report is consistent with the financial statements.



Pricewaterhouse Coopers LLP
Chartered Accountants and Registered Auditors
London
30 April 2009

TRAVELODGE HOTELS LIMITED

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2008

	Notes	Year ended 31 December 2008			Year ended 31 December 2007		
		Before exceptional items £m	Exceptional items £m	After exceptional items £m	Before exceptional items £m	Exceptional items £m	After exceptional items £m
REVENUE	2	287.0	-	287.0	241.5	-	241.5
Cost of sales		(20.1)	-	(20.1)	(14.7)	-	(14.7)
GROSS PROFIT		266.9	-	266.9	226.8	-	226.8
Administrative expenses		(248.9)	(3.4)	(252.3)	(199.5)	(7.5)	(207.0)
OPERATING PROFIT	3	18.0	(3.4)	14.6	27.3	(7.5)	19.8
EBITDAR <i>(Earnings before interest, tax, depreciation & tax)</i>		134.2	(3.4)	130.8	115.2	(7.5)	107.7
Net rent expense		(77.1)	-	(77.1)	(62.2)	-	(62.2)
EBITDA <i>(Earnings before interest, tax & depreciation)</i>		57.1	(3.4)	53.7	53.0	(7.5)	45.5
Depreciation - before revaluation adjustment	11	(30.8)	-	(30.8)	(25.7)	-	(25.7)
Operating profit		26.3	(3.4)	22.9	27.3	(7.5)	19.8
Depreciation - revaluation adjustment	11	(8.3)	-	(8.3)	-	-	-
Operating profit		18.0	(3.4)	14.6	27.3	(7.5)	19.8
Profit on disposal of tangible fixed assets		-	-	-	0.2	-	0.2
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		18.0	(3.4)	14.6	27.5	(7.5)	20.0
Net interest receivable and similar income	8	1.7	-	1.7	4.6	-	4.6
Net interest payable and similar charges	9	(7.6)	-	(7.6)	(8.0)	-	(8.0)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		12.1	(3.4)	8.7	24.1	(7.5)	16.6
Tax credit on profit on ordinary activities	10	-	-	-	1.4	-	1.4
PROFIT FOR THE FINANCIAL YEAR		12.1	(3.4)	8.7	25.5	(7.5)	18.0

All results in the current year are derived from continuing operations.

TRAVELODGE HOTELS LIMITED**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES AND
NOTE OF HISTORICAL COST PROFITS AND LOSSES
For the year ended 31 December 2008**

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Statement of total recognised gains and losses		
Profit for the financial year	8.7	16.6
Unrealised surplus on revaluation of leasehold properties	-	204.0
Total gains recognised since the last financial period	8.7	220.6
Note of historical cost profits and losses		
Reported profit on ordinary activities before taxation	8.7	16.6
Difference between historical cost depreciation charge and the actual depreciation charge for the year	20.2	7.8
Historical cost profit on ordinary activities before taxation	28.9	24.4
Historical cost profit for the year retained after taxation	28.9	25.8

TRAVELODGE HOTELS LIMITED

BALANCE SHEET

As at 31 December 2008

	<i>Note</i>	31 December 2008 £m	31 December 2007 £m
FIXED ASSETS			
Tangible assets	11	544.4	552.6
Investments	12	22.0	21.7
		<u>566.4</u>	<u>574.3</u>
CURRENT ASSETS			
Stocks	13	0.8	0.7
Debtors	14	382.0	373.3
Cash at bank and in hand		27.9	1.3
		<u>410.7</u>	<u>375.3</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	15	(135.8)	(115.3)
NET CURRENT ASSETS		<u>274.9</u>	<u>260.0</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>841.3</u>	<u>834.3</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	16	(30.7)	(30.6)
PROVISIONS FOR LIABILITIES	18	(11.6)	(13.4)
NET ASSETS		<u>799.0</u>	<u>790.3</u>
CAPITAL AND RESERVES			
Called up share capital	19	300.0	300.0
Revaluation reserve	20	388.3	408.5
Profit and loss account	20	110.7	81.8
TOTAL SHAREHOLDERS' FUNDS	21	<u>799.0</u>	<u>790.3</u>

These financial statements on pages 9 to 22 were approved by the board of directors and signed on their behalf by

Jon Mortimore
Director
10 April 2009

TRAVELODGE HOTELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

1 ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluations of certain fixed assets and in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Accounting policies have been consistently applied throughout the current and prior year and a summary of the principal accounting policies is set out below.

Cashflow statement

Under Financial Reporting Standard 1 "Cash flow statement" (revised 1996), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that its parent company (Travelodge Limited) includes the Company's cash flows in its own published consolidated accounts.

Group Accounts

The Company is exempt by virtue of section 228(1)(a) of the Companies Act 1985 from the requirement to prepare consolidated accounts.

Revenue

Revenue represents the amount receivable for goods and services supplied to customers in the normal course of business, net of VAT and trade discounts.

Stocks

Stocks comprise finished goods and goods for resale and are stated at the lower of cost and net realisable value.

Fixed assets

Interests in leasehold properties are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such leaseholds is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the profit and loss account to the extent of the decrease previously charged. A decrease in the carrying value arising on the revaluation of such leaseholds is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued leaseholds is charged to income. On the subsequent sale or retirement of a revalued leasehold, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings.

Fixtures and fittings and computer equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation

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

- Leasehold land and buildings are depreciated to their estimated residual values over the shorter of fifty years and their remaining lease periods.
- Other assets are depreciated over ten to fifteen years for plant and machinery, long life fixtures, fittings, equipment and information technology hardware; and up to seven years for short life fixtures, fittings and equipment.
- Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

TRAVELODGE HOTELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

1 ACCOUNTING POLICIES (CONTINUED)

Leased assets

Rental costs under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease, allowing for inflationary increases. Incentives received by the Group to enter into leases as a lessee are credited to the profit and loss account on a straight line basis over the lease term or, if shorter, the period to the first review date on which rent is adjusted to the prevailing market rate.

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital element of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis

Investments

Fixed asset investments are shown at cost less provision for impairment.

Pension costs

The Company only offers a defined contribution scheme to its employees. The amount charged to the profit and loss account for this scheme in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Exceptional items

The Directors believe that in order to understand the underlying performance of the business, material and non-recurring items should be separately disclosed as exceptional items in the income statement (note 3).

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is that the Company will be required to settle that obligation. Provisions are measured at the Directors' best of the expenditure required.

TRAVELODGE HOTELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

2 REVENUE

Revenue of £287.0m (2007: £241.5m) represented amounts derived from the provision of goods and services wholly within the UK and Ireland which fall within the Company's ordinary activities after the deduction of trade discounts and value added tax.

3 OPERATING PROFIT

	Year ended 31 December 2008	Year ended 31 December 2007
	£m	£m
Operating profit is stated after charging:		
Cost of Sales	20.1	14.7
Administrative expenses - Employee cost (note 5)	66.5	57.8
- Other costs	66.1	52.4
Auditors' remuneration - For the audit of the Company's annual accounts	0.1	0.4
- Non audit work ¹	-	1.0
Net operating lease rentals - Land and buildings	77.1	62.2
Depreciation - before revaluation adjustment	30.8	25.7
Depreciation - revaluation adjustment	8.3	-
Exceptional items ^{2,3}	3.4	7.5

1 - In the financial year to 31 December 2007 non audit work mainly comprised tax compliance services and other taxation services.

2 - In the financial year to 31 December 2008 exceptional costs charged against operating profit mainly include a charge of £1.9m in relation to redundancy costs (of which £1.5m was paid during the year), a charge of £1.4m in relation to the reassessment of certain onerous lease provisions and £0.1m of other exceptional costs (also paid in the year).

3 - In the financial year to 31 December 2007 exceptional costs charged against operating profit consisted of a £5.5m charge following a formal revaluation of the Company's interests in leasehold properties on an existing use basis in December 2007. This valuation resulted in a total surplus of £220.7m recognised on 239 properties (representing 79% of the estate) and a total revaluation deficit of £22.2m recognised on 65 properties (representing 21% of the estate). Of this £22.2m deficit, £5.5m recognised on 17 properties (representing 6% of the estate) has been charged to the profit and loss account. The remaining deficit of £16.7m recognised on 48 properties (representing 16% of the estate) has been offset against previous revaluation surpluses held in respect of those properties. The balance of £2.0m is represented by a £1.9m charge in relation to the cancellation of an historic supply contract and other costs amounting to £0.1m.

4 PROFIT ON DISPOSAL OF FIXED ASSETS

	Year ended 31 December 2008	Year ended 31 December 2007
	£m	£m
Profit on disposal of fixtures and fittings	-	0.2
	-	0.2

TRAVELODGE HOTELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

5 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Directors' emoluments for 2008 totalled £1,263,327 (2007: £1,242,000). Directors' emoluments include basic salary of £1,260,115 (2007: £1,241,000), bonuses of £nil (2007: £nil) and benefits in kind £3,212 (2007: £2,000). This includes pension contributions of £178,740 (2007: £186,460).

The remuneration of the highest paid Director was £410,109 (2007: £400,000) and the pension contribution for the director was £67,981 (2007: £66,600).

	Year ended 31 December 2008	Year ended 31 December 2007
	£m	£m
Employee costs during the year (including Directors)		
Wages and salaries	62.2	53.9
Social security costs	3.9	3.5
Pension costs	0.4	0.4
	66.5	57.8

	Year ended 31 December 2008	Year ended 31 December 2007
	Number	Number
Average number of persons employed	2,937	2,819
Total number of persons employed	4,987	4,446

The average number of employees includes all employees whether full time or part time employees. The average number of employees comprises full time equivalents which has been calculated by dividing the total number of hours worked by part time staff by the hours in a full time working week.

The average and total number of employees include executive directors.

During the year, retirement benefits for 4 directors were accrued under the defined contribution pension scheme.

6 OPERATING LEASE COMMITMENTS

At 31 December 2008 the Company had annual operating lease commitments of £89.3m (2007: £70.4m) principally relating to property leases. All commitments expire in more than five years.

7 OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments	Capital liability	Minimum lease payments	Capital liability
	2008	2008	2007	2007
	£m	£m	£m	£m
Amounts payable under finance leases				
Within one year	3.4	-	3.4	-
In the second to fifth years inclusive	14.9	-	14.6	-
Greater than five years	363.1	26.0	367.2	25.5
	381.5	26.0	385.3	25.5
Less: future finance charges	(355.5)		(359.8)	
	26.0		25.5	
Amount due for settlement after 12 months	26.0		25.5	

The Company holds five properties which have been classified as finance leases with an average lease term of 54 years (2007: 55 years).

TRAVELODGE HOTELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

8 NET INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Interest receivable from group undertakings	1.5	4.6
External interest receivable	0.2	-
Net interest receivable	1.7	4.6

9 NET INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Finance lease interest charge	(3.8)	(3.8)
Unwinding of discount on provisions (note 16)	(0.7)	(1.0)
Interest payable to group undertakings	(3.1)	(3.2)
Net interest payable	(7.6)	(8.0)

10 TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Current tax:		
Adjustments in respect of prior tax periods	-	-
Deferred tax:		
Origination and reversal of timing differences	-	(1.4)
Tax credit on profit on ordinary activities	-	(1.4)

The differences between the total current tax and the amount calculated by applying the blended rate of tax for the period of 28.5% to the profit before tax are as follows:

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Profit on ordinary activities before tax	8.7	16.6
UK corporation tax rate of 28.5% (2007: 30%)	2.5	5.0
Effects of:		
Capital allowances in excess of depreciation	8.0	(1.5)
Items not chargeable to corporation tax	(0.1)	0.4
Tax relieved by group losses for nil consideration	(10.5)	(6.2)
Expenses not deductible for tax purposes	-	2.3
Adjustments in respect of prior years	0.1	-
Current tax charge for the year	-	-

No provision for UK corporation tax has been made for the year to 31 December 2008 (2007: £nil) since the profit for the year will be sheltered by group relief expected to be made available to the Company by other companies in the Travelodge Limited Group. It is anticipated that tax losses and the availability of capital allowances in excess of depreciation will reduce future tax charges.

The tax effective tax rate borne by the company has changed from 30% to 28% as of 1 April 2008. Further, the standard rate of corporation tax used for the current year should be 28.5% not 30%.

TRAVELODGE HOTELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

10 TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

Deferred tax is as follows:

	31 December 2008	31 December 2008	31 December 2007	31 December 2007
	Provided	Unprovided	Provided	Unprovided
	£m	£m	£m	£m
Deferred capital allowances	-	(17.7)	-	(6.5)
Tax losses and other timing differences	-	(3.6)	-	-
Capital gains	-	1.9	-	(7.7)
Deferred tax liability/ (asset)	-	(19.4)	-	(14.2)

The potential net deferred tax asset shown above has not been recognised due to lack of certainty that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

In the event of a disposal of fixed assets at the values at which they are held in the accounts, a tax charge of up to £105m could arise, before utilisation of any potential reliefs.

The movement in the unrecognised deferred tax asset arising in the year is comprised as follows:

	Accelerated Capital Allowances	Capital Gains	Tax Losses	Total
	£m	£m	£m	£m
At 1 January 2008	(6.5)	(7.7)	-	(14.2)
Charge / (credit) due to movement in the year	(11.2)	9.6	(3.6)	(5.2)
At 31 December 2008	(17.7)	1.9	(3.6)	(19.4)

TRAVELODGE HOTELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

11 TANGIBLE FIXED ASSETS

	Long leaseholds £m	Short-term leasehold interests £m	Finance leaseholds £m	Fixtures and fittings £m	Computer Equipment £m	Total £m
Cost or valuation						
At 1 January 2008	3.5	489.8	41.7	81.6	12.9	629.5
Additions						
- capital expenditure	-	15.3	-	19.1	0.4	34.8
- movement on capital creditors	-	(8.9)	-	5.0	-	(3.9)
At 31 December 2008	3.5	496.2	41.7	105.7	13.3	660.4
Accumulated depreciation						
At 1 January 2008	(0.7)	(25.9)	(13.6)	(32.1)	(4.6)	(76.9)
Charge for the year before revaluation	(0.1)	(9.9)	(0.8)	(16.6)	(3.4)	(30.8)
Charge for the year on revaluation ⁽¹⁾	-	(8.3)	-	-	-	(8.3)
At 31 December 2008	(0.8)	(44.1)	(14.4)	(48.7)	(8.0)	(116.0)
Net book value						
At 31 December 2008	2.7	452.1	27.3	57.0	5.3	544.4
At 31 December 2007	2.8	463.9	28.1	49.5	8.3	552.6

1) This amount relates to a revaluation of properties performed in 2007, the cumulative revaluation to date is shown in note 20.

Long leasehold properties are stated at cost or valuation.

Formal valuations of restaurant properties and budget hotels were carried out by DTZ, an independent Chartered Surveyors, on an existing use basis in December 2007.

Historical cost of tangible fixed assets

	2008 £m	2007 £m
Cost	248.2	217.3
Accumulated depreciation	(103.9)	(73.2)
Historical cost net book value	144.3	144.1

TRAVELODGE HOTELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

12 INVESTMENTS HELD AS FIXED ASSETS

	Shares in subsidiaries £m
Cost	
At 1 January 2008	38.2
Additions (capital contributions to subsidiaries)	0.3
At 31 December 2008	38.5
Provisions for impairment	
At 1 January 2008 and 31 December 2008	(16.5)
Net book value	
At 31 December 2008	22.0
At 31 December 2007	21.7

The directors believe that the carrying value of the investments is supported by their underlying net assets.

Investments held as fixed assets constitute shares in subsidiary undertakings which are listed below.

Direct subsidiary undertakings	Business description	Country of incorporation	% of equity held
TLLC Regent Palace Limited	Dormant	Great Britain	100
Stewart Watt Limited	Dormant	Great Britain	100
TLLC LevPropCo1 Limited	Property lessor	Great Britain	100
TLLC LevPropCo5 Limited	Property lessor	Great Britain	100
TLLC LevPropCo7 Limited	Property lessor	Great Britain	100
Anchor Hotels Limited	Dormant	Great Britain	100
Kelly's Kitchen Limited	Dormant	Great Britain	100
TLLC LevPropCo3 Limited	Dormant	Great Britain	100
TLLC LevPropCo4 Limited	Dormant	Great Britain	100
TLLC PropHoldCo 1 Limited	Non-trading	Great Britain	100
Waseley Ten Limited	Dormant	Great Britain	100
Waseley Twelve Limited	Dormant	Great Britain	100
Waseley Fourteen Limited	Dormant	Great Britain	100
Inhoco 3220 Limited	Dormant	Great Britain	100
TLLC Hotels Limited	Dormant	Great Britain	100
Travelodge Holdings (Malta) Limited	Non-trading	Malta	100

TRAVELODGE HOTELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

13 STOCKS

	2008	2007
	£m	£m
Finished goods and goods for resale	0.8	0.7

14 DEBTORS

	2008	2007
	£m	£m
Trade debtors	6.9	11.1
Amounts owed by Group undertakings	348.4	343.3
Corporation tax debtor	-	2.0
Other debtors	1.2	1.4
Prepayments and accrued income	25.5	15.5
	382.0	373.3

15 CREDITORS: amounts falling due within one year

	2008	2007
	£m	£m
Trade creditors	(8.1)	(5.4)
Amounts owed to group undertakings	(62.8)	(49.7)
Other taxation and social security	(6.5)	(7.3)
Other creditors	(41.7)	(40.0)
Accruals and deferred income	(16.7)	(12.9)
	(135.8)	(115.3)

16 CREDITORS: amounts falling due after more than one year

	2008	2007
	£m	£m
Accruals and deferred income	(4.7)	(5.0)
Obligations under finance leases		
- Due after five years	(26.0)	(25.6)
Total obligations under finance leases	(26.0)	(25.6)
	(30.7)	(30.6)

TRAVELODGE HOTELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

17 FUNDING

Travelodge Hotels Limited is a member of a group which finances its operations through a mixture of bank borrowings, a Eurobond, trade credit and share capital.

The gross bank debt was made up of the following: Senior Loans £320.5m (2007: £308.5m), Mezzanine Loan £97.3m (2007: £91.7m) and PIK Loan £60.0m (2007: £50.5m). Of the Senior Loans of £320.5m (2007: £308.5m), £2.3m expires in 2 years (2010), £10.1m expires in 3 years (2011), £10.1m expires in 4 years (2012), £20.0m expires in 5 years (2013), £124.0m expires in 6 years (2014), £124.0m expires in 7 years (2015) and £30.0m expires in 8 years (2016). The Mezzanine Loan of £97.3m (2007: £91.7m) expires in 8 years (2016), and the PIK Loan of £60.0m (2007: £50.5m) expires in 9 years (2017).

The Eurobond issue price was £183.5m and is listed on the Channel Islands stock exchange. The annual interest on the instrument is 17% and the bond is redeemable in 2017.

Travelodge Hotels Limited has guaranteed the obligations and liabilities described above (under a number of banking agreements) which were entered into by the group of companies controlled by Travelodge Limited.

18 PROVISIONS FOR LIABILITIES

	Restaurant and sublet units £m	Onerous leases £m	Total £m
Balance at 1 January 2008	(11.5)	(1.9)	(13.4)
Increase in provisions	(0.1)	(1.3)	(1.4)
Cash spend	3.6	0.3	3.9
Unwinding of discount on provisions	(0.5)	(0.2)	(0.7)
Balance at 31 December 2008	(8.5)	(3.1)	(11.6)

Provisions for restaurant and sublet units of £8.5m (2007: £11.5m) include £5.3m for rent liabilities on 15 vacant units with annual rent liability of £0.5m and average lease term of 35 years and £3.2m for rent liabilities predominantly on sub let units where the rent received is less than the passing rent paid (with a net rent liability of £0.7m and average lease term remaining of 31 years).

19 CALLED UP SHARE CAPITAL

	2008 £m	2007 £m
Allotted and fully paid:		
300 million ordinary shares of £1 each	300.0	300.0

20 RESERVES

	Revaluation reserve £m	Share capital £m	Profit & loss £m	Total £m
At 1 January 2008	408.5	300.0	81.8	790.3
Profit for the financial year	-	-	8.7	8.7
Depreciation on revaluation reserve ⁽¹⁾	(20.2)	-	20.2	-
At 31 December 2008	388.3	300.0	110.7	799.0

1) This amount relates to the cumulative balance from revaluations of properties, the revaluation for 2007 is shown in note 11 and in the Profit and Loss account.

TRAVELODGE HOTELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

21 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2008	2007
	£m	£m
Opening shareholders' funds	790.3	568.3
Profit for the financial year	8.7	18.0
Net Revaluation surplus	-	204.0
Closing shareholders' funds	799.0	790.3

22 CAPITAL COMMITMENTS

Contracted future capital expenditure not provided for in these financial statements predominantly relates to expenditure on fees and stamp duty on hotels under construction subject to satisfactory completion of the hotel. At 31 December 2008 the capital commitment not provided for in the financial statements, subject to satisfactory practical completion, was £4.6m (2007: £5.0m).

23 CONTINGENT LIABILITIES

The Company has a contingent liability under a number of leases that have been assigned to various third parties. In certain circumstances, should the current lessee default on the payment of rent, a superior landlord may have recourse to the Company. Should a superior landlord make a claim on the Company for unpaid rent, the Company would be required to settle that liability and subsequently the unit / units subject to the claim could be seized by the Company following petitioning of a court. The Company could subsequently, subject to certain conditions, either trade from the unit or reassign or sublet the lease of the unit to a third party.

At 31 December 2008 the estimated annual contingent rental liability was £0.1m (2007: £0.1m), represented by 7 units (2007: 7 units), with an average annual rental cost per unit of £16k (2007: £16k) and an average lease term remaining of 26 years (2007: 30 years).

At 31 December 2008 the Company had guaranteed an indemnity issued in favour of the Royal Bank of Scotland PLC of €6.9m (2007: €6.7m), which related to the Company's three hotels in Spain. This represents the Company's maximum exposure to credit risk in relation to this guarantee.

24 RELATED PARTY TRANSACTIONS AND ULTIMATE CONTROLLING PARTY

As a subsidiary of Travelodge Limited, the Company has taken advantage of the exemption in FRS 8 'Related party disclosures' not to disclose transactions with other members of the Group.

The immediate parent company is TLLC Limited, which acquired the Company effective as of 30 January 2003.

The Directors regard Dubai International Capital LLC ("DIC"), a Company incorporated in the United Arab Emirates, as the ultimate controlling party and the ultimate parent company of the largest group of which the Company is a member and for which Group financial statements are drawn up. DIC invested in Travelodge Limited on 5 September 2006. Travelodge Limited is the parent company of the smallest group of which the Company is a member and for which the Group financial statements are drawn up. Copies of the Travelodge Limited Group financial statements are available from its registered office: Sleepy Hollow, Aylesbury Road, Thame, Oxon, OX9 3AT.