Company registration number **0769170**

TRAVELODGE HOTELS LIMITED

Report and financial statements

For the year ended 31 December 2017

TRAVELODGE HOTELS LIMITED
REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 2017

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TRAVELODGE HOTELS LIMITED
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TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

Founded in 1985, Travelodge is one of the UK's leading hotel brands based on number of hotels and number of rooms operated. The Group leased, franchised and managed 558 hotels and 42,110 rooms across the UK, Spain and Ireland at 31 December 2017, under the umbrella of the holding company Thame and London Limited. Travelodge Hotels Limited covers the UK and Ireland only, with the 5 leases and 621 rooms in Spain held in a different subsidiary. We operate in the attractive midscale and economy sector of the hotel market (as defined by Smith Travel Research) and are positioned as a low-cost operator, offering standardised, modern guest rooms at affordable prices to both business and leisure customers. Our brand currently has brand recognition of over 90% among the UK population (as measured by a YouGov brand tracking survey), driven by our long-standing market presence, wide geographic network and effective national marketing initiatives.

We are a predominantly UK leasehold business, representing over 98% of total revenue. In addition we operate eleven hotels under management contract in the UK and twelve hotels under franchise in Ireland and Northern Ireland. We estimate we attracted approximately 19 million customers last year and almost 90% of our bookings were made through our direct channels. We employ almost 12,000 people across our hotels and support offices, the majority of whom work in our hotels on hourly paid contracts with flexible hours of work.

The Directors present the Strategic Report of the financial statements of Travelodge Hotels Limited ("THL" or "Travelodge") for the year ended 31 December 2017.

Summary

Our continued focus on quality and service is delivering good results. Rising sales from business customers, boosted by our new SuperRooms, helped drive strong sales growth, with like-for-like RevPAR once again ahead of the competitive segment. This helped mitigate the significant macroeconomic and external cost pressures facing the sector and deliver another year of progress for the business.

We delivered total revenue growth of 6.6% in 2017, with 2.9% like-for-like RevPAR growth and a significant contribution from new hotels opened since 2016. We once again outperformed the STR MSE segment by 0.7%.

This good revenue growth has helped to mitigate the impact of significant cost increases, particularly on regulated costs such as the National Living Wage and business rates, as well as general cost inflation with our full year EBITDA up £2.4m.

In addition we opened 15 new hotels in 2017, including sites at London Harrow, Bath City Centre, Redhill Town Centre and Newcastle Quayside in line with our target.

This continued good performance has allowed us to undertake a further re-financing in January 2018, following the April 2017 refinancing, further reducing our cost of debt as a result.

Financial Highlights

- Total revenue **up 6.2%** to £624.0m (2016: £587.7m)
- RevPAR(1) **up 2.9%** to £40.49 (2016: £39.34)
- RevPAR(1) growth **0.7pts ahead** of competitive segment(2)
- Average room rate(1) up 2.8% to £53.19 (2016: £51.75)
- Occupancy(1) maintained at 76.1%
- EBITDA(3) **up £2.4m** to £108.8m (2016: £106.4m)

Operational Highlights

- Continued growth from business customers, with encouraging results from new business account programme and business website upgrade
- SuperRooms showing encouraging early trading with 990 rooms in 20 hotels
- Strong development momentum - 15 new hotels opened in the year
- UK and Ireland Estate now stands at 553 hotels and 41,489 rooms at 31 December 2017

(1) Revenue per available room, Average room rate and Occupancy on a UK like-for-like basis.
(2) Our competitive segment is the Midscale and Economy Sector of the UK hotel market as reported by Smith Travel Research (STR), an independent hotel research provider, providing aggregate benchmarking information on the UK and other hotel market performance.
(3) EBITDA = Earnings before interest, taxes, depreciation and amortisation, and exceptional items. Exceptional items have been removed as they relate to non-recurring or one-off items.

STRATEGIC REPORT

Like-for-like RevPAR was up 2.9% to £40.49, outperforming the growth rate of the STR Midscale and Economy Sector, which was up 2.2% for the same period.

We continue to use effective revenue management to optimise the balance between occupancy and rate growth. We maintained UK like-for-like occupancy at 76.1% and grew UK like-for-like average room rate by 2.8% to £53.19 (2016: £51.75), principally driven by continued growth from business customers and improved conversion rates from our upgraded website, supported by effective yield management.

These positive like-for-like sales results, together with strong food and beverage sales and the contribution from our maturing new hotels opened since the beginning of 2016, has resulted in total revenue growth of 6.2% for the year to £624.0m.

In 2017, EBITDA grew by £2.4m to £108.8m (2016: £106.4m), with the good revenue growth offsetting a number of regulated cost increases including the National Living Wage and business rates which increased from April. Other operating costs remained tightly controlled.

The business continues to generate strong operating cashflow, with a closing cash balance of £91.9m at the year end (2016: £72.1m). Following our refinancing in Q2 2017, the Group has long-term facilities in place including the benefit of an undrawn £50m RCF facility.

Strategy

Over the last four years we have strengthened Travelodge considerably. We have upgraded our estate, opened over 50 new hotels, launched our new SuperRooms and now have more than 170 hotels with on-site bar cafes. We continue to make good progress towards our aim of becoming the favourite hotel for value, by delivering our customers a combination of location, price and quality that suits their travel needs.

Location

During the year we extended our network with a further 15 hotels, including new sites at London Harrow, Bath City Centre, Redhill Town Centre and Newcastle Quayside. We now have a wide network, including more than 170 hotels with on-site bar café restaurants, a network that would be the fourth largest hotel chain in the UK if it were a separate brand. In 2018 we expect to open 20 hotels, including our new 395 room London City hotel in the summer, with a significant proportion of these openings in the fourth quarter.

Price

We continue to drive to be the cheapest of the big competitor brands, with a clear positioning to our customers, while raising our average RevPAR by winning a greater share of business customers, who are more likely to stay in our premium locations and for longer than the average. We made good progress during the year, again outperforming the midscale and economy segment.

Quality

We continue to invest in upgrading our hotels, launching our new SuperRoom product in early 2017. We now have over a thousand SuperRooms across the UK, which feature Lavazza coffee pod machines, Hansgrohe raindance showers, a choice of pillows and other improved facilities. Early results from this new offer have been encouraging, with an average rate premium of £10-20.

We again upgraded our food and beverage offer during the year, resulting in record sales. We are also in the process of trialling a new bar café format in a small number of hotels.

We received a record number of TripAdvisor certificates of Excellence in 2017, and an average TripAdvisor rating of 4 stars out of 5. This continued improvement in quality has been driven by the efforts of our almost 12,000 strong team, which includes our in-house housekeeping team, supported by investment in standardisation of our ten step proprietary room cleaning process.

We made further improvements to our digital platform in 2017, helping us sustain more than 80% of our bookings being made through Travelodge.co.uk, and more than 89% direct overall, well in excess of the industry norms.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

Outlook

The UK is currently in a period of well understood macroeconomic uncertainty with significant regulatory and other inflationary cost pressures.

Demand for budget hotels has remained positive since the start of the year. However, the market is up against tough comparables for last year, which included strong inbound travel owing to the weak pound, and it also faces the impact of new supply growth in what is traditionally a low occupancy period. For the midscale and economy sector, the first few weeks of the year have seen declines in London RevPAR and somewhat flat performance in the Regions. We have continued to outperform our segment and deliver like-for-like RevPAR growth.

In view of the wider economic uncertainty and the well-known cost headwinds, especially those relating to the national living wage, other regulated cost increases and general inflationary pressures, we remain cautious on the immediate outlook. However once these pressures abate, we are well positioned.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

Results

Results for the Company are for the full year ended 31 December 2017, with comparatives for the full year ended 31 December 2016.

	Year ended 31 Dec 2017 £m	Year ended 31 Dec 2016 £m	Var £m	Var %
Key income statement items				
Revenue	**624.0**	**587.7**	**36.3**	**6.2%**
Operating expenses	(334.4)	(310.1)	(24.3)	*(7.8)%*
Of which cost of goods sold	*(37.8)*	*(36.7)*	*(1.1)*	*(3.0)%*
Of which employee costs	*(147.7)*	*(134.1)*	*(13.6)*	*(10.1)%*
Of which other operating expenses	*(148.9)*	*(139.3)*	*(9.6)*	*(6.9)%*
Net external rent payable	(180.8)	(171.2)	(9.6)	(5.6)%
EBITDA	**108.8**	**106.4**	**2.4**	**2.3%**
Amortisation	(4.8)	(3.8)	(1.0)	(26.3)%
Depreciation	(46.9)	(42.2)	(4.7)	(11.1)%
Operating profit / (loss) (before exceptional items)	**57.1**	**60.4**	**(3.3)**	**(5.5)%**
Net financing costs	(9.8)	(12.7)	2.9	22.8%
Income tax	(0.7)	5.3	(6.0)	(113.2)%
Profit / (loss) for the period (before exceptional items)	**46.6**	**53.0**	**(6.4)**	**(12.1)%**
Exceptional items	(2.1)	(0.9)	(1.2)	(133.3)%
Profit / (loss) for the period	**44.5**	**52.1**	**(7.6)**	**(14.6)%**

Revenue

Revenue increased by £36.3m, or 6.2%, from £587.7m for the year ended 31 December 2016 to £624.0m for the year ended 31 December 2017. This increase was primarily due to like-for-like UK RevPAR growth of 2.9%, the annualisation and maturity of the 19 new hotels added in the 2016 and the opening of 15 new hotels in the year. Like-for-like growth outperformed the MS&E segment growth of 2.2% for the year.

Operating expenses

Operating expenses (excluding rent, before exceptionals) increased by £24.3m, or 7.8%, from £310.1m for the year ended 31 December 2016 to £334.4m for the year ended 31 December 2017. Cost increases were mainly due to increased employee costs and other operating expenses.

Employee cost increases were largely driven by the additional staff employed in our new hotels, wage inflation (including the impact of the National Living Wage).

Higher other operating expenses have been largely driven by our new hotels, business rates, inflationary increases and project spend. They include sales and marketing costs which were focused on more targeted digital and customer relationship management (CRM) and business to business sales activity, with spend spread more evenly through the year in contrast to the phasing driven by the first half TV brand marketing campaign last year.

STRATEGIC REPORT

Net external rent payable

Net external rent payable increased by £9.6m, or 5.6%, from £171.2m for the year to 31 December 2016 to £180.8m for the year to 31 December 2017. This increase was primarily due to 15 new hotel openings during the year, the annualisation of the 19 hotels which opened in 2016, together with upwards only rent reviews predominantly linked to RPI.

Depreciation / amortisation

Depreciation increased by £4.7m, or 11.1%, from £42.2m for the year to 31 December 2016 to £46.9m for the year to 31 December 2017. This is mainly due to new hotel openings and investment in maintenance, refurbishment and upgrading our hotels.

Amortisation increased by £1.0m, or 26.3%, from £3.8m for the year to 31 December 2016 to £4.8m for the year to 31 December 2017. This is mainly due to the finance system implementation project during 2016 and ongoing website development.

Net finance costs

Net finance costs decreased by £2.9m from £12.7m for year ended 31 December 2016 to £9.8m for the year ended 31 December 2017, primarily due to an increase of intercompany interest received from other group companies following the 2016 refinancing.

Taxation

Income tax is recognised based on management's best estimate of the income tax rate expected for the financial year. The Travelodge Group continues to monitor the progress of tax legislation through the UK Parliament.

Income tax increased by £6.0m, from a credit of £5.3m for the year ended 31 December 2016 to a charge of £0.7m for the year ended 31 December 2017. This movement is non-cash and entirely relates to changes in deferred tax on intangible assets, group relief and differences between accounting depreciation and capital allowances.

Exceptional items

Exceptional charges of £2.1m relate to a net rent provision reassessment charge of £3.4m, partially offset by other provision reassessment credits of £1.3m.

In the financial year to 31 December 2016, exceptional charges of £0.9m consist of the impairment of fixed assets in Aberdeen due to changes in local market demand.

Funding, Covenant Compliance & Going Concern

The group of companies that THL is a subsidiary of ("the Group") has the following funding structure:

			31 Dec 17	31 Dec 16
			£m	£m
Bonds	-	Fixed rate	261.0	290.0
	-	Floating rate	165.0	100.0
	-	Issue costs	(7.6)	(10.1)
Secured Debt			**418.4**	**379.9**
Cash			**(95.0)**	**(73.9)**
External Net Debt (excluding finance leases)			**323.4**	**306.0**

The total funding of the Group is summarised below:

	31 Dec 17	31 Dec 16
	£m	£m
Bonds	**418.4**	**379.9**
Unsecured (Loan Notes)	117.4	138.1
Total Funding	**535.8**	**518.0**

At 31 December 2017, the Group had utilised £14.9m of the Letter of Credit Facility (with a maximum amount of £30.0m) (2016 utilised: £17.2m) in favour of the Group's credit card acquirer and lease guarantees.

The Group refinanced in May 2016, issuing £390m of Bonds due May 2023, together with a £50m revolving credit facility (currently undrawn) and a £30m letter of credit facility. In April 2017 the Group refinanced again, repaying £129m of bonds and issuing £165m of new bonds and in January 2018 the Group completed a further refinancing, repaying £29m of fixed rate bonds and issuing £30m of floating rate bonds.

Under our current financing structure covenants are generally tested upon the occurrence of an event rather than on an ongoing basis, failure to maintain a specified level of financial health will not cause a default under the Indenture so long as interest payments can be made.

The Directors have reviewed the Group's financial projections for the foreseeable future, and in particular, the occupancy and rate forecasts and strategic initiatives that underpin those projections and cash flows. These critical assumptions have also been stress tested with plausible but pessimistic changes to those assumptions. The Group has no requirement for debt repayment until May 2023 and no ongoing maintenance covenant tests unless the RCF is substantially drawn. The Directors have a reasonable expectation that the Group has adequate resources to continue as a going concern into the foreseeable future.

STRATEGIC REPORT

Employee Involvement

Nearly 12,000 Travelodge colleagues work together to look after our customers each day.

We offer a wide range of roles, including front-line guest service positions, construction and maintenance teams and a range of positions in our support centre.

With a mix of full-time and part time roles, we are an ideal employment choice for people who are looking to build their careers in hospitality, or fit work around other commitments, including working parents, students and people looking for a second career later in life.

New team members undergo an induction programme to support them in being successful in their role and further training is made available for all team members to progress and advance their careers.

Over more than thirty years, we have helped thousands of people grow their careers and make the journey from entry-level jobs to management positions. Our management development programme, 'Aspire' is central to our approach, helping candidates secure externally recognised qualifications as well as practical management skills. We currently have many colleagues studying towards apprenticeship and management qualifications, as well as other colleagues developing through professional qualifications and on the job training.

Travelodge recognises the benefits of having a diverse workforce with different backgrounds and experiences, solely employed on ability and it supports this belief with clear policies on equality and diversity and a track record of strong representation at all levels from people of all backgrounds. Travelodge monitors the diversity of job applicants, as well as the composition of our existing workforce by each protected characteristic in order to support a culture of equality, diversity and inclusion. We remain committed to evolving our approach to ensure it is embedded as a way of life across the organisation.

Human Rights

Travelodge firmly supports and endeavours to carry out its business in a manner compatible with the protection of individuals' human rights. The Company does this through its compliance with relevant legislation and through an insistence on ethical business practices. Where relevant Travelodge Hotels Limited has company policies that reflect the rights granted to individuals under the Human Rights Act 1998, such as areas of fair treatment and non-discrimination, data protection, equality and diversity and health and safety.

Pensions

The Company offers a defined contribution pension scheme to its employees. All employees are auto-enrolled into one of two schemes provided by Scottish Widows and NEST, with employer contributions charged to the Income Statement.

Safety, Security and Corporate Social Responsibility

Travelodge places the safety and security of its customers, colleagues and the communities in which we operate as its highest priority.

We operate a number of different policies to help protect these groups as summarised below:

Safety and Security at the Hotels

We have a comprehensive and proactive approach to risk management, endeavouring to ensure that all our customers are always in safe accommodation, maintained and operated in compliance with the appropriate regulations and standards.

We regularly train our team members in a range of safety and security topics and share and develop best practice internally through our District-based Safety Champions. We also continue to build our relationships in Primary Authority Partnerships with key enforcement agencies and externally with other organisations.

To aid us to ensure that all our practices and procedures are correctly implemented we use an independent expert company to carry out twice annual unannounced safety audits at all our hotels. In addition to this, we are of course subject to regular routine inspections from local authority Environmental Health Officers, Fire Safety Officers and officers from other various enforcement agencies.

We actively monitor our audit, enforcement and accident and incident data, ensuring that all information is analysed and improvements are made where possible. This assists us to prevent any reoccurrences and continually work to reduce risk to our customers and team.

Information Security

Travelodge is committed to ensuring that customer data is held in a sensitive and secure manner. To this end Travelodge maintain a public Privacy Policy statement.

It is Travelodge policy to manage information in compliance with the Data Protection Act (1998). It will be Travelodge policy to act in line with its successor, the General Data Protection Regulations ("GDPR"), from May 2018.

Customer data is used in accordance with our published privacy policy, and stored within the EU or in accordance with current EU data governance requirements.

With regard to credit card data, Travelodge adhere to the provisions of PCI DSS 3.2, and audit as a tier one merchant. All credit card information is kept confidential through industry-standard encryption techniques.

Accessibility

As a business we recognise the wide range of customers that use our premises and aim to make them accessible to all. We hold research groups to hear first-hand from our customers what their needs are so these can be incorporated into both our products and our policies. We continue to retain a specialist accessibility consultant to assist us to consider accessibility in all product development and meet the latest requirements.

We also recognise that team members who can understand the needs of our customers are also vital, and therefore carry out accessibility training for our staff.

We are committed to making our web site accessible to all users, including people with disabilities. In order to achieve this, the UK website has been developed in accordance with the Web Content Accessibility Guidelines 1.0 where possible. These guidelines have been published by the World Wide Web Consortium to promote accessibility.

Environmental Impact

We continue to work to reduce our carbon footprint, by changing the way we build new hotels, run our hotels day to day and by working with our partners & suppliers to reduce their carbon footprint.

Every new build Travelodge hotel has the following green features:

- Low energy lighting and a recent change to LED lighting
- Aerated showers
- Full insulation
- Windows and external fixtures fitted accurately for minimum energy leakage
- Stipulated sites will have a BREEAM Rating and green travel plans
- Smart meters installed
- VRF heating and cooling system
- Dual flush toilets
- Combined Heat & Power boilers

In addition to the above measures Travelodge works with energy consultants to consider future improvements, including more efficient hot water generation equipment and other alternative energy generation methods.

Engagement in the Community

Our charity partner is chosen by a company-wide team member vote. Since February 2017 our partner has been the British Heart Foundation and we have raised over £150,000 for this charity. Prior to that our partner had been Macmillan Cancer Support for whom we raised over £750,000 since 2013. We raise funds through activities across the length and breadth of the country, from cricket matches to cycle rides and 'DECHOX diets'. We are also making life-saving CPR training available to colleagues, which commenced in 2017.

We have also continued our successful relationship with Pennies, the pioneering electronic donation box. This unique service allows customers to choose to make a small donation to BHF as part of the online booking process.

Risk Management

Travelodge has a risk management system and internal controls in place to protect our business as far as reasonably possible against known and emerging risks and support achievement of our business objectives, in particular:

- Our brand and reputation
- Delivery of our strategy
- Safeguarding physical assets, people and systems

The key known risks and the mitigations to those risks which the Company was exposed to during the period are listed below:

Challenging macroeconomic circumstances or a further economic downturn in Europe, in particular the UK, or declines or disruptions in consumer discretionary spending could have a material adverse effect on our business, results of operations, financial condition or prospects.

Historically, the performance of the UK hotel industry has correlated with the strength of the UK economy generally. Within the UK hotel market, the value branded sector is the largest and has demonstrated strong growth and resilience. Other macro-economic factors also influence the demand for hotel accommodation from domestic travellers, particularly employment levels, wages, business and consumer spending, business and consumer confidence and reduced spending following terrorist attacks or other unexpected events. The performance of the UK hotel industry is also affected by the number of travellers coming to the UK from other countries.

The UK electorate voted in favour of a UK exit from the EU in a referendum held on June 23, 2016, the consequences of which could adversely impact our business, results of operations and financial condition.

The UK Government held an in-or-out referendum on the United Kingdom's membership of the European Union on June 23, 2016 in which the UK electorate voted in favour of the United Kingdom exiting from the EU ("Brexit"). A process of negotiation has commenced between the UK Government and the EU to determine the future terms of the United Kingdom's relationship with the European Union. We are headquartered and tax domiciled in the United Kingdom and our business, results of operations and financial condition could be materially adversely affected by Brexit.

Depending on the terms of Brexit, the United Kingdom could lose access to the EU single market and to the global trade deals negotiated by the European Union on behalf of its members. Such a decline in trade could affect the attractiveness of the United Kingdom as a global investment centre and, as a result, could have a detrimental impact on UK growth. Uncertainty around the timing and terms of Brexit following the referendum could also have a negative impact on the UK economy. We could be adversely affected by reduced growth in the UK economy and greater volatility in the

Pound. Changes to UK border and immigration policy could likewise occur as a result of Brexit, affecting the number of travellers to the United Kingdom and the freedom of employers to recruit staff from outside the United Kingdom. A portion of Travelodge's workforce comprises of non-UK EU citizens and a decline in the number of such citizens in the UK could have a detrimental effect on Travelodge's ability to recruit staff. While Travelodge is predominantly a domestic business, it is possible that any of the foregoing factors could have a material adverse effect on our business, results of operations or financial condition.

The Company operates in a competitive industry with other branded competition and there is a risk that competitor actions or failure to compete effectively in the market could have a detrimental impact on the Company. The Company reviews the market continually and has developed strategy, which is covered above in this report, which is regularly reviewed in line with competitor decisions and actions.

Failure to comply with environmental, health and safety laws and regulations may result in a material adverse effect on our business. A major safety incident, such as a hotel fire or building defect, could result in serious injury to customers and colleagues, with attendant risk of reputation damage and litigation. The Company is exposed to health and safety risks whilst team members work, customers stay and others visit the Company's hotels and corporate offices and takes a comprehensive approach to mitigating health & safety risk.

At a company-wide level, Primary Authority Partnerships are established for fire, food and general Health & Safety, and for police contact. A full planned and preventative maintenance programme runs year-round, and incidents, accidents and near miss activity are reviewed to establish further action required. These actions are reviewed monthly and documented at internal Health & Safety meetings. At hotel level, a monthly cycle of 'pit stop' training provides regular and systematic skills transfer, and hotel teams are thoroughly briefed on their responsibilities and the Company's escalation mechanisms, covering incident, accident, disaster recovery and interaction with emergency services. To aid us to ensure that all our practices and procedures are correctly implemented we use an independent expert company to carry out twice annual unannounced safety audits at all our hotels. To drive continuous improvement through the sharing of best practice, each District of hotels has a Health & Safety Champion who shares the outputs of their monthly meetings with their District colleagues.

The Company's industry is heavily regulated and a failure to comply with regulatory requirements may result in a material adverse effect on our business, results of operations or financial condition. Travelodge takes its legislative responsibilities seriously and endeavours to ensure compliance with all relevant applicable laws.

Failures of our website, pricing software or other IT systems, delays in the operation of our IT systems or system enhancement failures could reduce our revenue and profits and harm the reputation of our brand and our business.

The Company is highly reliant on information technology for both its day to day operations and as an essential enabler of the customer booking journey, consequently the failure of core systems would significantly disrupt trading and our operation and adversely impact the Company's performance. To mitigate this risk, the Company works extensively with, and is dependent upon, specialist third-party providers to maintain our systems, optimise performance, upgrade our infrastructure, and provide appropriate resilience. The Company employs reasonable industry-standard back-up systems and seeks to eliminate single points of failure. The Company also conducts on-going risk assessments and business continuity planning. The Company has invested in cyber insurance to protect the business against the consequences of major unforeseen, malicious, or unavoidable service disruptions.

There is a risk that customer data, including payment card data, could be compromised, either by external or internal actors. The Company is committed to ensuring that customer data is held in a sensitive and secure manner and we maintain a public Privacy Policy statement which is reviewed regularly.

The Company processes large numbers of transactions via its proprietary website and in-hotel payment systems. Customer data is used in accordance with our published privacy policy, and stored within the EU or in accordance with current EU data governance requirements. With regard to credit card data, the Company adheres to the provisions of PCI DSS 3.2, and audits as a tier one merchant. All credit card information is kept confidential through industry-standard encryption techniques. It is Company policy to manage information in compliance with the Data Protection Act (1998) and will be policy to act in line with its successor, the General Data Protection Regulations from May 2018.

The Company reviews general data security regularly and invests in proportionate and appropriate security systems and processes to endeavour to ensure the integrity of its systems, its customer/card data, and its compliance with the regulatory requirements of both PCI DSS and the DPA. The requirements of GDPR have been reviewed ahead of the application of these regulations in the UK from May 2018.

Our business depends on our relationships with our third-party suppliers and outsourcing partners. The Company is reliant on certain third-party suppliers to provide key services and goods to the Company which are critical to the continuing trade of the Company. There is a risk that should any of these suppliers be unable to continue to provide goods or satisfactorily perform services to the Company, that our business would be interrupted. The Company and key suppliers meet regularly to consider operational, commercial and legal issues as appropriate and the Company maintains contingency plans where possible in the event of any key supplier failure.

Approved by the Board of Directors and signed on behalf of the Board by

Boydell

Joanna Boydell, CFO

6 April 2018

TRAVELODGE HOTELS LIMITED

DIRECTORS' REPORT

The Directors present the Directors' Report for the audited accounts for Travelodge Hotels Limited for the year ended 31 December 2017.

Directors

The Directors who served during the period and up to the date of the report are detailed on page 1.

Results

Results for the Company are for the full year ended 31 December 2017, with comparatives for the full year ended 31 December 2016.

For 2017, the Company made EBITDA of £108.8m (2016: £106.4m), Operating Profit of £57.1m (2016: £60.4m) and Profit before Tax of £47.3m (2016: £47.7m).

Ownership

At 31 December 2017, the Directors regarded Anchor Holdings SCA Luxembourg as the ultimate controlling party.

Anchor Holdings SCA Luxembourg is owned by funds managed by GoldenTree Asset Management LP, Avenue Capital Group and Goldman Sachs Group, Inc.

GoldenTree Asset Management is an asset management firm that specialises in opportunities across the credit universe in sectors such as high yield bonds, leveraged loans, distressed debt, structured products, emerging markets and credit-themed equities. The firm was founded in 2000 with offices in New York, London and Singapore, and manages over $24 billion in assets under management.

Avenue Capital Group is a global investment firm focused on private and public debt, equity and real estate markets in the U.S., Europe and Asia. Avenue is headquartered in New York with offices in London, Luxembourg, Madrid, Milan and Munich, as well as offices throughout Asia.

The Goldman Sachs Group, Inc. is a leading global investment banking, securities and investment management firm that provides a wide range of financial services to a substantial and diversified client base. Founded in 1869, the firm is headquartered in New York and maintains offices in all major financial centres around the world.

Currency

The majority of the Group's revenue is earned in sterling. The majority of the Group's costs are paid in sterling.

Financial Risk Management

The Company faces financial risks and these are covered in note 19 of Thame and London Limited consolidated financial statements.

Insurance

The Group maintains qualifying third party indemnity insurance in respect of Directors and Officers against any such liabilities as referred to in Section 234 of the Companies Act 2006. This insurance was in force during the financial year and also at the date of the approval of the financial statements.

DIRECTORS' REPORT

Taxation

The underlying income tax charge for the year of £0.7m relates entirely to changes in deferred tax on tax losses, the tax liability that may arise on the crystallisation of the revaluation reserve and differences between accounting depreciations and capital allowances. There were no cash tax payments during the year.

Dividend

The Directors do not recommend the payment of a dividend.

Independent Auditors

During the year the Directors re appointed PricewaterhouseCoopers LLP as auditors of the Group.

Approved by the Board of Directors and signed on behalf of the Board

Boydell

Joanna Boydell, CFO

6 April 2018

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 regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors 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.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board

Joanna Boydell
Director

6 April 2018

Independent auditors' report to the members of Travelodge Hotels Limited

Report on the audit of the financial statements

Opinion

In our opinion, Travelodge Hotels Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the statement of financial position as at 31 December 2017; the income statement, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 15, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Nigel Reynolds (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 April 2018

TRAVELODGE HOTELS LIMITED
INCOME STATEMENT
For the year ended 31 December 2017

		Year ended 31 December 2017			Year ended 31 December 2016		
	Notes	Before exceptional items £m	Exceptional items £m	**After exceptional items £m**	Before exceptional items £m	Exceptional items £m	**After exceptional items £m**
Turnover	2	624.0	-	624.0	587.7	-	**587.7**
Operating Costs	3/4	(334.4)	1.3	(333.1)	(310.1)	-	(310.1)
Rent	3/4	(180.8)	(3.4)	(184.2)	(171.2)	-	(171.2)
EBITDA[1]		**108.8**	**(2.1)**	**106.7**	**106.4**	**-**	**106.4**
Depreciation and Amortisation	3/10/11	(51.7)	-	(51.7)	(46.0)	(0.9)	(46.9)
Operating profit		**57.1**	**(2.1)**	**55.0**	**60.4**	**(0.9)**	**59.5**
Profit before interest and taxation		**57.1**	**(2.1)**	**55.0**	**60.4**	**(0.9)**	**59.5**
Interest receivable and similar income	7	3.3	-	3.3	0.9	-	0.9
Interest payable and similar expenses	4/8	(13.1)	-	(13.1)	(13.6)	-	(13.6)
Profit before taxation		**47.3**	**(2.1)**	**45.2**	**47.7**	**(0.9)**	**46.8**
Tax (charge) / credit on profit	9	(0.7)	-	(0.7)	5.3	-	5.3
Profit for the financial year		**46.6**	**(2.1)**	**44.5**	**53.0**	**(0.9)**	**52.1**

All results are derived from continuing operations.

1. EBITDA = Earnings before interest, taxes, depreciation and amortisation, and exceptional items. Exceptional items have been removed as they relate to non-recurring or one-off items.

TRAVELODGE HOTELS LIMITED
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

	Note	**Year ended 31 December 2017 £m**	**Year ended 31 December 2016 £m**
Profit for the financial year		44.5	52.1
Deferred tax on revaluation reserve	*9*	(1.6)	(2.4)
Difference between historical cost depreciation charge and the actual depreciation charge for the year	*20*	9.1	9.1
Adjustment to deferred tax attributable to changes in tax rates and laws	*9*	-	(1.6)
Total comprehensive income for the year		**52.0**	57.2

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

	Note	**Called Up Share Capital £m**	**Revaluation Reserve £m**	**Profit and Loss Account £m**	**Total Shareholders' Funds £m**
Balance at 1 January 2017		**300.0**	**124.6**	**(153.0)**	**271.6**
Profit for the financial year		-	-	44.5	44.5
Deferred tax on revaluation reserve	*9/20*	-	1.6	(1.6)	-
Difference between historical cost depreciation charge and the actual depreciation charge for the year	*20*	-	(9.1)	9.1	-
Total comprehensive (expense) / income for the year		-	**(7.5)**	**52.0**	**44.5**
Balance at 31 December 2017		**300.0**	**117.1**	**(101.0)**	**316.1**

For the year ended 31 December 2016

	Called Up Share Capital £m	**Revaluation Reserve £m**	**Profit and Loss Account £m**	**Total Shareholders' Funds £m**
Balance at 1 January 2016	**300.0**	**134.8**	**(210.2)**	**224.6**
Profit for the financial year	-	-	52.1	52.1
Deferred tax on revaluation reserve	-	2.4	(2.4)	-
Difference between historical cost depreciation charge and the actual depreciation charge for the year	-	(9.1)	9.1	-
Adjustment to deferred tax attributable to changes in tax rates and laws	-	1.6	(1.6)	-
Impairment of fixed assets	-	(5.1)	-	(5.1)
Total comprehensive income / (expense) for the year	-	**(10.2)**	**57.2**	**47.0**
Balance at 31 December 2016	**300.0**	**124.6**	**(153.0)**	**271.6**

TRAVELODGE HOTELS LIMITED
STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Note	31 December 2017 £m	31 December 2016 £m
FIXED ASSETS			
Intangible assets	*10*	**12.9**	14.2
Tangible assets	*11*	**358.0**	355.9
Investments	*12*	**-**	-
		370.9	**370.1**
CURRENT ASSETS			
Stocks	*13*	**1.0**	1.4
Debtors	*14*	**225.9**	150.2
Cash at bank and in hand		**91.9**	72.1
		318.8	**223.7**
Creditors: Amounts falling due within one year	*15*	**(277.9)**	(227.4)
NET CURRENT ASSETS / (LIABILITIES)		**40.9**	**(3.7)**
TOTAL ASSETS LESS CURRENT LIABILITIES		**411.8**	**366.4**
Creditors: Amounts falling due after more than one year	*16*	**(55.7)**	(53.0)
Provisions for liabilities	*18*	**(40.0)**	(41.8)
NET ASSETS		**316.1**	**271.6**
CAPITAL AND RESERVES			
Called up share capital	*19*	**300.0**	300.0
Revaluation reserve	*20*	**117.1**	124.6
Profit and loss account	*20*	**(101.0)**	(153.0)
TOTAL SHAREHOLDERS' FUNDS	*21*	**316.1**	**271.6**

These financial statements on pages 18 to 33 were approved by the Board of Directors and signed on their behalf by

Boydell

Joanna Boydell
Director

6 April 2018

Travelodge Hotels Limited — Company registration number 0769170

1 ACCOUNTING POLICIES

Travelodge Hotels Limited (the Company) is a private company limited by share capital incorporated and domiciled in the United Kingdom. The address of its registered office and principal place of business are disclosed on page 1. The Company provides budget hotel accommodation throughout the United Kingdom.

Basis of accounting
These financial statements have been prepared in accordance with Financial Reporting Standard 102 (FRS102) with certain exemptions of the reduced disclosure framework applied as detailed below.

These financial statements are prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 applicable to the Company reporting at 31 December 2017.

The Directors have reviewed the Company's financial projections for the foreseeable future and in particular, have reviewed the Company's occupancy and room rate forecasts. The Directors have reviewed the critical assumptions which underpin those projections and have also stress tested those projections with pessimistic, but plausible, changes to those critical assumptions. As a result of these sensitivities, the Directors have a reasonable expectation that the Company has adequate resources to continue to trade into the foreseeable future (being at least for the 12 months from the date of these financial statements) and, as such, continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The preparation of financial statements in conformity with FRS102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed on page 24.

The Company faces certain financial risks relating to interest rates, currency exposure, credit risk, liquidity and capital structure, which are managed at a Group level as disclosed in note 19 of the Thame & London Limited consolidated financial statements (which are publicly available).

The principal accounting policies are set out below and have been applied consistently throughout the year.

Exemptions
Under FRS102 (section 1), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that its parent company (Thame and London Limited) includes the Company's cash flows in its own published consolidated financial statements.

The entity is a qualifying entity and has also taken advantage of the financial instrument disclosures exemption and the exemption from disclosing key management compensation (other than Directors' emoluments) under FRS102 (section 1.12).

Group financial statements
The Company is a wholly owned subsidiary of Thame & London Limited. The consolidated financial statements of Thame and London Limited are publicly available. Therefore the Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

Turnover
Turnover is measured at fair value of the consideration received or receivable and represents the amount receivable for goods and services supplied to customers in the normal course of business, net of trade discounts and VAT. The principal turnover stream of the Company is providing budget hotel accommodation and is recognised when customers stay.

Stocks
Stocks comprise finished goods and goods for resale and are stated at the lower of cost and estimated selling price less cost to complete and sell. Cost is determined on a first in, first out basis.

Goodwill
Goodwill arising on acquisition of a business combination represents the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is amortised over twenty years on a straight line basis.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

1 ACCOUNTING POLICIES (CONTINUED)

Tangible assets
The Company elected to adopt a 'deemed cost' value at the date of transition in the year ended 31 December 2012. This reflects the value of the tangible assets under the previous revaluation policy under UK GAAP at the date of transition (1 January 2011). The Company will no longer apply the revaluation model under FRS 102 (as it previously did under UK GAAP) and will hold assets at the deemed cost and depreciate them over their useful economic lives. Revaluations will no longer be performed.

On transition, the revaluation reserve remains in accordance with the Companies Act 2006. Tangible assets are tested for impairment when an indicator of impairment is identified. Any impairment of the carrying value is charged to the income statement, unless the impairment relates to a previously revalued asset, in which case it is treated as a revaluation decrease. Any impairment which relates to a previously revalued asset, over and above the amount carried in the revaluation reserve, is charged to the income statement.

Increased depreciation arising on the revalued portion of the assets held continues to be offset against the revaluation reserve. 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.

Values attributed to lease premiums arose under the previous revaluation policy under UK GAAP. Values were attributed by estimating the present value of the net cash flows expected to be received over the lives of the lease agreements. On transition to FRS102, interests in leasehold premiums were recognised at the deemed cost at the date of transition. Lease premiums are amortised over the life of the lease on a straight line basis and are reviewed for impairment if a triggering event is identified.

Subsequent additions to lease premiums are also capitalised at cost and mainly relate to certain legal and professional costs incurred in the process of entering into new lease agreements at new hotel sites.

Fixtures and fittings and computer equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Cost is defined to include the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Freehold buildings are depreciated to their estimated residual values over periods up to fifty years. Leasehold land and buildings are depreciated to their estimated residual values over the shorter of fifty years and their remaining lease periods. Short-term leasehold interests are amortised on a straight line basis over the period of the leases or their estimated remaining lives if less. Other tangible assets are depreciated on a straight line basis over their remaining lives within the following ranges: Fixtures and fittings - 5 years; Computer equipment - 3 years.

Assets in the course of construction predominately consist of costs in relation to the construction of new hotels which have not yet opened. These are not depreciated.

Residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

Intangible assets
Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognised at fair value at the acquisition date.

IT software
IT software is measured initially at purchase cost and is amortised on a straight line basis over its expected useful life of three years. Cost includes the original purchase price of the assets and the costs attributable to bringing the asset to working condition for its intended use. The values attributed are reviewed for impairment if events or changes in circumstances indicate that their carrying value may be impaired.

Leased assets
Rental costs or income 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.

For leases existing prior to the FRS102 transition date of 1 January 2011, the Company has taken the exemption on transition under FRS102 and has credited incentives on leases on a straight line basis over the period to the first review date (all before 31 December 2017) on which date the rent payable has been adjusted to the prevailing market rates.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Leased assets held under finance leases are depreciated on a straight line basis over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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 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.

Rental income from operating leases (sub-lets) is recognised on a straight line basis over the term of the relevant lease.

1 ACCOUNTING POLICIES (CONTINUED)

Impairment
At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of the fair value less costs to sell or value in use, where value in use is defined as the present value of the future cash flows obtainable as a result of an asset's continued use. The cash flows are discounted using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of the asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in income immediately.

Taxation
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 in the foreseeable future 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.

Fixed Asset Investments
Fixed asset investments are shown at cost less accumulated impairment losses.

Pension Costs
The Company offers a defined contribution scheme to its employees. The amount charged to the income statement for the 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. The assets of the scheme are held separately from those of the Company in an independently administered fund.

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

Prepaid Room Purchases
Deferred income principally relates to prepaid room purchases where cash is received at the time of room booking, prior to arrival date, and is recognised to income when the customers stay.

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 profit and loss account (note 4).

1 ACCOUNTING POLICIES (CONTINUED)

Critical accounting judgements and estimation uncertainties
The preparation of the financial statements in conformity with generally accepted accounting principles requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results in the future could differ from those estimates. In this regard, the Directors believe that the critical accounting policies where judgements or estimations are necessarily applied are summarised below.

Onerous lease provisions
The Company has provided for operating lease rentals where these are above the market rate or where the Company has vacated the property and the rental income is less than the rental expense, or where it is probable a previously sublet unit will revert to the Company. The element of the rental which is above market or above any rental cost paid relating to vacated properties is charged against the provision. Provisions are also made for the business rates that the Company is liable to on empty sites and on hotels where it is considered improbable that trading profits will be generated. The key estimation judgement in determining the onerous amount is the period over the remaining lease term that the property will remain either rented or vacant. The Directors have estimated these periods after considering both the quality and the location of each of the units provided for. The cash flows are discounted at 4.0% (2016: 4.0%) representing a risk free and pre-tax rate based on 25 year government gilt and further adjusted for property risk.

Intangible and tangible assets - hotel assets
Significant judgement is involved in the process of identifying and evaluating hotel carrying values. These assets with a finite life are reviewed for impairment when an impairment trigger is identified. Calculating any subsequent impairment, principally in the estimation of the future cash flows of the cash generating units and the discount rate applied to each cash generating unit involves judgement. The Company prepares cash flow forecasts derived from the most recent financial budgets and financial plans approved by the Directors and extrapolates cash flows beyond this time based on an estimated long term growth rate of 2.5%. The key assumptions are consistent with past experience and with external sources of information. The resulting cash flows are discounted back at the Company's risk adjusted pre-tax weighted average cost of capital of 9.0% (2016: 7.5%). When calculating the discount rate, the market-weighted average cost of capital for the sector was used based on a portfolio of similar hotel businesses. Reviews are performed on a site by site basis over the length of the lease. The Directors have considered the Company's financial projections and the assumptions which underpin those projections including future growth of the budget hotel sector, brand demand and occupancy, the new hotel opening profile and development pipeline opportunities. For the purposes of testing for hotel asset impairment, growth rates are assumed to broadly follow the Retail Price Index beyond the life of the financial plan. After considering the sensitivity of the principal assumptions, the Directors do not believe any

Depreciation and residual values
The Directors have reviewed the asset lives and associated residual values of all fixed asset classes, and in particular, the useful economic life and residual values of fixtures and fittings, and have concluded that asset lives and residual values are appropriate.

2 TURNOVER

Turnover of £624.0m (2016: £587.7m) represents amounts derived from the provision of goods and services wholly within the UK (£623.1m) and Ireland (£0.9m) which fall within the Company's ordinary activities after the deduction of trade discounts and value added tax. All turnover relates to the principal activity of the Company, which is the supply of hotel rooms.

3 NET OPERATING EXPENSES (BEFORE EXCEPTIONAL ITEMS)

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Operating profit is stated after charging / (crediting):		
Cost of sales	**37.8**	36.7
Employee costs (note 5)	**147.7**	134.1
Fees payable for the audit[1]	**0.3**	0.3
Operating expenses	**148.6**	139.0
Net operating expenses before rent, depreciation and exceptional items	**334.4**	**310.1**
Rent[2] - payable	**184.5**	174.8
- receivable	**(3.7)**	(3.6)
Net rent payable	**180.8**	**171.2**
Net operating expenses	**515.2**	**481.3**
Amortisation of intangible assets	**4.8**	3.8
Depreciation of tangible assets	**46.9**	42.2
Net operating expenses before exceptional items	**566.9**	**527.3**
Exceptional items (note 4)	**2.1**	0.9
Total net operating expenses	**569.0**	**528.2**

1. Fees payable for the audit of the company were £0.1m (2016: £0.1m). During the year, the company also paid £0.2m (2016: £0.2m) on behalf of other group companies for the audit of their financial statements. Non-audit services of £nil (2016: £nil) were incurred.

2. All material operating lease charges relate to property.

4 EXCEPTIONAL ITEMS

In the financial year to 31 December 2017, exceptional charges of £2.1m relate to a net rent provision reassessment charge of £3.4m, partially offset by other provision reassessment credits of £1.3m.

In the financial year to 31 December 2016, exceptional charges of £0.9m relate to the impairment of fixed assets in Aberdeen due to changes in local market demand.

5 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Directors' emoluments	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Directors' emoluments	**5.4**	3.1
Total	**5.4**	3.1
Remuneration of the highest paid Director	**2.5**	1.2

	Number	Number
Number of Directors accruing benefits under the defined contribution scheme	**-**	-

Employee costs during the year (including Directors)	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Wages and salaries	**138.3**	125.8
Social security costs	**7.7**	6.8
Other pension costs	**1.7**	1.5
Employee costs before exceptional items	**147.7**	**134.1**
Total employee costs	**147.7**	**134.1**

	Year ended 31 December 2017 Number	Year ended 31 December 2016 Number
Average number of people employed	**6,671**	6,325
Total number of persons employed	**11,071**	10,294

The total number of employees at the year ended 31 December 2017 includes all employees whether full time or part time. The average FTE number of employees has been calculated as the average FTE number of people who were included on the Group's payroll during the year.

The average and total number of employees include executive Directors.

6 OPERATING LEASE COMMITMENTS

Total commitments under operating leases amounted to £4,081.0m (2016: £3,846.3m).

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Due within one year	**190.8**	182.2
Due between one and five years	**806.6**	739.3
Due beyond five years	**3,083.6**	2,924.8
Total	**4,081.0**	3,846.3

	Year ended 31 December 2017	Year ended 31 December 2016
Average lease term remaining	**17.8**	18.5

The leases are standard operating leases with normal commercial terms, typically 25 years (though a number of city centre and London properties have 35 year terms), subject to standard upward only rent reviews, with the majority based on RPI indices (though some with caps and collars, some at open market value, and others are based on CPI), with Group only renewal rights at the end of the lease.

7 INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Bank interest receivable	**0.3**	0.6
Interest receivable from group undertakings[1]	**3.0**	0.3
Total interest receivable	**3.3**	**0.9**

1. As part of the funding of the Group, Travelodge Hotels Limited makes loans to other Group companies which are used by those companies to settle certain bank interest obligations. Interest receivable from group undertakings relates to interest receivable on these outstanding balances owing from those Group companies. An interest rate of 0 - 10% is charged on balances between fellow Group companies.

8 INTEREST PAYABLE AND SIMILAR EXPENSES

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Cash		
Finance lease interest charge	4.5	4.3
Accrued		
Finance lease interest charge	0.2	0.9
Unwinding of discount on provisions (note 18)	0.6	0.6
Interest payable to group undertakings[1]	7.8	7.8
Total interest payable	**13.1**	**13.6**

1. As part of the funding of the Group, Travelodge Hotels Limited has received loans from other Group companies resulting from the drawdown on certain bank facilities. Interest payable to group undertakings relates to interest payable on these outstanding balances owing to those Group companies. An interest rate of 0 - 10% is charged on balances between certain fellow Group companies.

9 TAX ON PROFIT

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Current tax	-	-
Deferred tax:		
Origination and reversal of timing differences	0.7	(4.9)
Adjustment to deferred tax attributable to changes in tax rates and laws	-	(0.4)
Total deferred tax	**0.7**	**(5.3)**
Tax charge / (credit) on profit / (loss)	**0.7**	**(5.3)**

9 TAX ON PROFIT (CONTINUED)

The differences between the total tax for the year and the amount calculated by applying the standard rate of tax for the year of 19.25% (2016: 20.00%) to the profit / (loss) before taxation are as follows:

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Profit before taxation	45.2	46.8
UK corporation tax rate of 19.25% (2016: 20.00%)	8.7	9.4
Tax effect of:		
Expenses not deductible for tax purposes	1.3	1.3
Tax relieved by group losses for nil consideration	(9.6)	(13.8)
Changes in recoverable amounts of deferred tax assets	-	(1.8)
Changes in closing deferred tax due to a change in the tax rate	0.3	(0.4)
Total tax charge / (credit) for the year	**0.7**	**(5.3)**

Deferred tax is as follows:

	31 December 2017 Provided £m	31 December 2017 Unprovided £m	31 December 2016 Provided £m	31 December 2016 Unprovided £m
Accelerated capital allowances	15.1	-	17.2	-
Tax losses and other timing differences	0.5	-	0.7	-
Deferred tax asset (note 14)	**15.6**	**-**	**17.9**	**-**
Revalued fixed assets	(24.0)	-	(25.6)	-
Deferred tax liability (note 18)	**(24.0)**	**-**	**(25.6)**	**-**
Net Deferred tax liability	**(8.4)**	**-**	**(7.7)**	**-**

At 31 December 2017, a deferred tax asset of £15.6m (2016: £17.9m) has been recognised due to the reasonable expectation of sufficient taxable profits arising from which the future reversal of the underlying timing differences can be deducted. In addition, there is a deferred tax liability of £24.0m (2016: £25.6m) which has been recognised relating to the tax liability that may arise on the crystallisation of the revaluation reserve.

The deferred tax on the revaluation reserve is expected to reverse in line with the depreciation realised against the revaluation reserve each year. The reversal for 2018 is expected to be in line with 2017.

There is no unrecognised deferred tax.

The main rate of UK corporation tax was 20% up to 31 March 2017, and 19% thereafter. There is expected to be a further reduction in the main rate of UK corporation tax to 17% on 1 April 2020.

Deferred tax balances have been measured at a rate of 17%, being the rate substantively enacted at the balance sheet date.

10 INTANGIBLE ASSETS

	Goodwill £m	Computer Software £m	Total £m
Cost			
At 1 January 2017	6.0	14.3	20.3
Transfers[1]	-	3.9	3.9
Movement on capital creditor	-	(0.4)	(0.4)
Write off fully depreciated assets	-	(3.6)	(3.6)
At 31 December 2017	**6.0**	**14.2**	**20.2**
Accumulated amortisation			
At 1 January 2017	(1.8)	(4.3)	(6.1)
Charge for the year	(0.3)	(4.5)	(4.8)
Write off fully depreciated assets	-	3.6	3.6
At 31 December 2017	**(2.1)**	**(5.2)**	**(7.3)**
Net book value			
At 31 December 2017	**3.9**	**9.0**	**12.9**
At 31 December 2016	4.2	10.0	14.2

1. Total transfers of £3.9m are offset by total transfers of (£3.9m) within Tangible Assets (note 11).

11 TANGIBLE ASSETS

	Long leaseholds £m	Short-term leasehold interests £m	Finance leaseholds £m	Assets Under Construction[1] £m	Fixtures and fittings £m	Computer Equipment £m	Total £m
Cost							
At 1 January 2017	2.5	314.8	21.4	6.9	158.0	1.9	505.5
Additions	-	-	-	50.2	-	-	50.2
Transfers[2]	-	2.2	-	(49.0)	42.7	0.2	(3.9)
Movement on capital creditor	-	-	-	-	2.7	-	2.7
Write off fully depreciated assets	-	-	-	-	(9.3)	(0.4)	(9.7)
At 31 December 2017	**2.5**	**317.0**	**21.4**	**8.1**	**194.1**	**1.7**	**544.8**
Accumulated depreciation							
At 1 January 2017	(0.9)	(83.4)	(4.9)	-	(59.6)	(0.8)	(149.6)
Charge for the year	-	(12.1)	(0.5)	-	(33.8)	(0.5)	(46.9)
Write off fully depreciated assets	-	-	-	-	9.3	0.4	9.7
At 31 December 2017	**(0.9)**	**(95.5)**	**(5.4)**	**-**	**(84.1)**	**(0.9)**	**(186.8)**
Net book value							
At 31 December 2017	**1.6**	**221.5**	**16.0**	**8.1**	**110.0**	**0.8**	**358.0**
At 31 December 2016	1.6	231.4	16.5	6.9	98.4	1.1	355.9

1. Assets under construction predominantly consists of costs in relation to the construction of new hotels which have not opened yet.
2. Total transfers of (£3.9m) is offset by total transfers of £3.9m within Intangible Assets (note 10).

12 INVESTMENTS

	Ordinary shares in subsidiaries £m
Balance at 31 December 2016 and 31 December 2017	-

Investments held as fixed assets at 31 December 2017 constitute ordinary shares in subsidiary undertakings which are listed below:

Name of subsidiary undertaking	Registered address	Business description	Country of incorporation	% of equity held
Travelodge Holdings (Malta) Limited*	The Landmark, Level 1, Suite 2, Triq L-Iljun, Qormi QRM3800, Malta	Holding company	Malta	100
FullMoonPropco1 Limited*	Sleepy Hollow, Aylesbury Road, Thame, Oxon, OX9 3AT	Dormant company	Great Britain	100

*Denotes direct investment

13 STOCKS

	2017 £m	2016 £m
Finished goods and goods for resale	**1.0**	1.4

14 DEBTORS

	2017 £m	2016 £m
Trade receivables	6.3	6.5
Amounts owed by Group undertakings[1]	162.6	86.1
Deferred tax asset[2] (note 9)	15.6	17.9
Other receivables	3.7	3.7
Prepayments	36.4	34.6
Accrued income	1.3	1.4
	225.9	**150.2**

1. As part of the funding of the Travelodge Group, Travelodge Hotels Limited makes loans to other Group companies which are used by these companies to settle other bank interest obligations. Amounts owed by group undertakings relates to these outstanding balances and associated interest charges owing from those companies. These amounts are unsecured and repayable on demand. An interest rate of 0 - 10% is charged on balances between fellow Group companies.

2. Due after more than one year.

15 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017 £m	2016 £m
Trade payables	(12.2)	(15.6)
Amounts owed to Group undertakings[1]	(152.6)	(115.6)
Taxation and social security	(10.5)	(10.3)
Other payables	(12.3)	(10.0)
Prepaid room purchases	(33.2)	(29.1)
Deferred income[2]	(1.3)	(1.0)
Other provisions	(2.9)	(2.5)
Accruals	(52.9)	(43.3)
	(277.9)	**(227.4)**

1. As part of the funding of the Travelodge Group, Travelodge Hotels Limited has received loans from other Group companies resulting from the drawdown on certain bank facilities. Amounts payable to Group undertakings relates to these outstanding balances and associated interest charges owing to those companies. These amounts are unsecured and repayable on demand. An interest rate of 0 - 10% is charged on balances between certain fellow Group companies.

2. Certain hotel leases include a rent-free period at the beginning of the lease term. Under FRS 102, the benefit of this rent free period is held on the balance sheet and is recognised in the income statement as a deduction to the actual rent expense in each period, on a straight line basis, over the full life of the lease.

16 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2017 £m	2016 £m
Deferred income[1]	(23.5)	(21.2)
Total obligations under finance leases (note 17)	(32.2)	(31.8)
	(55.7)	**(53.0)**

1. Certain hotel leases include a rent-free period at the beginning of the lease term. Under FRS 102, the benefit of this rent free period is held on the balance sheet and is recognised in the income statement as a deduction to the actual rent expense in each period, on a straight line basis, over the full life of the lease.

17 OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments 2017 £m	Minimum lease payments 2016 £m
Amounts payable under finance leases		
Due within one year	**(4.6)**	(4.6)
Due between one and five years	**(19.6)**	(18.9)
Due beyond five years	**(346.6)**	(351.8)
	(370.8)	(375.3)
Less: future finance charges	**338.6**	343.5
Amount due for settlement after 12 months (Capital liability)	**(32.2)**	**(31.8)**

The Company holds 5 properties (2016: 5 properties) which have been classified as finance leases with a weighted average remaining lease term of 47 years (2016: 48 years).

Capital liability due within one year is £nil (2016: £nil).

18 PROVISIONS FOR LIABILITIES

An analysis of provisions for liabilities for the year ended 31 December 2017 is given below:

	Deferred Tax £m	Other Provisions £m	Total £m
Balance at 1 January 2017	(25.6)	(18.7)	(44.3)
Transfer from revaluation reserve	1.6	-	1.6
Reassessment of provisions	-	(2.1)	(2.1)
Cash spend	-	2.5	2.5
Unwinding of discount on provisions	-	(0.6)	(0.6)
Balance at 31 December 2017	**(24.0)**	**(18.9)**	**(42.9)**
The balance can be analysed as:			
Due in less than one year	(1.6)	(1.3)	(2.9)
Due in greater than one year	(22.4)	(17.6)	(40.0)
	(24.0)	(18.9)	(42.9)

An analysis of provisions for liabilities for the year ended 31 December 2016 is given below:

	Deferred Tax £m	Other Provisions £m	Total £m
Balance at 1 January 2016	(29.6)	(24.5)	**(54.1)**
Transfer from revaluation reserve	2.4	-	**2.4**
Reassessment of provisions	1.6	-	**1.6**
Cash spend	-	6.4	**6.4**
Unwinding of discount on provisions	-	(0.6)	**(0.6)**
Balance at 31 December 2016	**(25.6)**	**(18.7)**	**(44.3)**
The balance can be analysed as:			
Due in less than one year	(1.6)	(0.9)	(2.5)
Due in greater than one year	(24.0)	(17.8)	(41.8)
	(25.6)	(18.7)	(44.3)

The deferred tax liability is shown in note 9.

A discount rate of 4% (2016: 4%) being the pre-tax risk free rate adjusted for property risk is used to calculate the net present value of the provisions.

Provisions of £18.9m (2016: £18.7m) comprise onerous lease provisions of £8.9m (2016: £10.7m) relating to future rent and rates liabilities on sub leased historic restaurant units and vacant sites, £6.7m (2016: £2.7m) relating to seven UK hotels where it is considered improbable that trading profits will be generated within a period of five to seven years and £3.3m (2016: £5.3m) of other provisions.

Onerous lease provisions relate to the future discounted cash outflow in relation to certain rent and rates liabilities where no economic benefit is expected to accrue to the Group. These provisions have an average lease term of 15 years and have been discounted at a pre-tax risk free rate of 4.0% (2016: 4.0%).

19 CALLED UP SHARE CAPITAL

	2017 £m	2016 £m
Issued and fully paid:		
300 million (2016: 300 million) ordinary shares of £1 each	**300.0**	300.0

20 RESERVES

	Revaluation Reserve £m	Profit and Loss Account £m	Total £m
At 1 January 2017	124.6	(153.0)	(28.4)
Profit for the financial year	-	44.5	44.5
Deferred tax on revaluation reserve	1.6	(1.6)	-
Depreciation on revaluation reserve[1]	(9.1)	9.1	-
At 31 December 2017	**117.1**	**(101.0)**	**16.1**

1. Offset of incremental depreciation (due to the upward revaluation of fixed assets in 2007), transferred from the revaluation reserve to the profit and loss reserve.

21 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2017 £m	2016 £m
Opening shareholders' funds	271.6	224.6
Profit for the financial year	44.5	52.1
Impairment of fixed assets offset against revaluation reserve	-	(5.1)
Closing shareholders' funds	**316.1**	**271.6**

22 CAPITAL COMMITMENTS

Contracted future capital expenditure not provided for in these financial statements predominantly relates to expenditure on the refurbishment and maintenance of current hotels. At 31 December 2017 the capital commitment not provided for in the financial statements, subject to satisfactory practical completion, was £5.7m (2016: £6.4m).

23 CONTINGENT LIABILITIES

The Company has contingent liabilities 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 2017 the estimated annual contingent rental liability was £61k (2016: £81k), represented by 5 units (2016: 7 units) with an average annual rental cost per unit of £12k (2016: £12k) and an average lease term remaining of 37 years (2016: 33 years).

24 RELATED PARTY TRANSACTIONS AND ULTIMATE CONTROLLING PARTY

At the balance sheet date, the immediate parent company is Full Moon Holdco 7 Limited.

The Company has taken advantage of the exemption in FRS102 (section 33) 'Related party disclosure' not to disclose transactions with other members of the Group.

The Directors regard Anchor Holdings SCA as the ultimate controlling party and regard Thame & London Limited as the controlling party of the largest Group of which the Company is a member and of which is the only company within the Group where consolidated financial statements are drawn up.

Travelodge Hotels Limited guarantees the debts of certain fellow Group companies. Further details can be obtained from the consolidated Group financial statements of Thame & London Limited. Copies of these Group financial statements are available from the registered office: Sleepy Hollow, Aylesbury Road, Thame, Oxon, OX9 3AT.

During 2014, certain property leases the Group had previously entered into with an external third party were sold on an arm's length basis to an entity which is controlled by the Group's ultimate owners. During 2016, certain of these property leases were sold back to an external third party. All terms of these property leases and the value the Group is liable to pay were unchanged as a result of these transactions. In the year ended 31 December 2017, the property costs charged were £24.4m (2016: £36.1m from transfer of ownership) and there were no balances outstanding at 31 December 2017.