

Company Registration No. 0769170

TRAVELODGE HOTELS LIMITED

Report and financial statements

For the year ended 31 December 2019



REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

CONTENTS

	Page Number
Officers and professional advisors	1
Strategic report	2 - 27
Directors' report	28 - 29
Statement of Directors' responsibilities in respect of the financial statements	30
Independent auditors' report	31 - 32
Income statement	33
Statement of comprehensive income	34
Statement of changes in equity	34
Balance sheet	35
Notes to the consolidated financial statements	36 - 56

TRAVELODGE HOTELS LIMITED

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

OFFICERS AND PROFESSIONAL ADVISORS

DIRECTORS

Joanna Boydell
Peter Gowers
Brian Wallace
Paul Harvey (resigned 16th September 2019)

COMPANY SECRETARY

Joanna Boydell
Katherine Thomas

REGISTERED OFFICE

Sleepy Hollow
Aylesbury Road
Thame
Oxfordshire
OX9 3AT

BANKERS

Barclays PLC
1 Churchill Place
London
E14 5HP

SOLICITORS

Addleshaw Goddard
Milton Gate
60 Chiswell Street
London
EC1Y 4AG

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

Our Mission

At Travelodge, our mission is to provide affordable travel for everyone and we are positioned as the low-cost choice, offering our customers the best balance of location, price and quality for their travel needs.

In 2019 more people chose Travelodge than ever before, and we delivered another year of improvements for our stakeholders alongside strong financial performance.

Summary

2019 Performance Headlines

- Total revenue **up 4.9%** to £713.2m (2018: up 9.0% to £680.2m)
- RevPAR⁽¹⁾ **up 0.3%** to £41.75 (2018: up 3.2% to £41.69)
- RevPAR⁽¹⁾ growth **2.3pts ahead** (2018: 2.3pts ahead) of competitive segment⁽²⁾
- Occupancy⁽¹⁾ **up 2.1pts** to 80.6% (2018: 78.5%)
- Average room rate⁽¹⁾ down (2.3)% at £51.82 (2018: £53.01)
- EBITDA⁽³⁾ **£334.3m** (under IFRS 16)
- **14 new hotels** opened in the year, further 3 shortly after year end
- **'SuperRooms'** trading strongly in 51 hotels
- 495 hotels achieving TripAdvisor rating of 4 stars (2018: 444)
- UK and Ireland Estate now stands at 583 hotels and 44,211 rooms (up 4%)⁽⁴⁾

Our record results in 2019 brought us to the end of our initial five year strategic plan to build a new Travelodge and during that period the business has undergone a significant transformation.

We have delivered growth in sales, outperformance compared to our rivals and improved profitability for each of the last five years, and we have been ranked as one of Britain's top ten fastest growing private businesses for each of the last three years in the FastTrack survey.

Our strong performance continued into the first two months of 2020. However, following the onset of the Covid-19 situation, we have faced extremely difficult trading conditions, with substantial falls in demand and the majority of our hotels closed for the whole of the second quarter. In response to the situation we developed and are implementing a comprehensive recovery plan. This includes up to £100m of new funding, from a new £60m revolving credit facility and further equity commitments of up to £40m, both provided by our existing ultimate shareholders (or affiliates thereof). In addition, the Company will benefit from temporary rent reductions of approximately £140m through to the end of 2021, which were implemented through a Company Voluntary Arrangement ("CVA") that was approved by creditors on 19 June 2020.

While it is too early to assess the future trading environment with confidence, our recovery plan gives us a solid platform, despite the inevitable material uncertainties that prevail.

- (1) RevPAR is computed as the product of the Average Daily Rate for a specified period multiplied by the Occupancy for that period.
Like-for-like ("LFL") RevPAR compares the RevPAR in FY 2019 vs. FY 2018 on the basis of RevPAR generated by hotels that were opened before 1 January 2018.
- (2) Our principle benchmark 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, tax, depreciation, amortisation and non-underlying items presented on an IFRS basis – including IFRS 16.
- (4) As at 31 December 2019.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

Overview

Travelodge had a record year in 2019, with more customers choosing us than ever before. We continued to focus on delivering affordable travel for everyone and our great value offers, together with a strong contribution from our new 'SuperRooms', helped us grow faster than our competitive segment for the sixth year in a row.

We successfully opened 14 new hotels in 2019 further enhancing our network with a mix of key cities and regional towns. These openings included two further new build 'Travelodge Plus' hotels in Marlow, Buckinghamshire and Edinburgh.

At the end of 2019 our network stood at 583 hotels across the UK and Ireland and we have opened a further 3 hotels since the year end.

While the onset of Covid-19 has clearly presented material uncertainty, we have developed a comprehensive recovery plan and we continue to believe the budget hotel sector presents significant future opportunities.

Strong results in challenging conditions

During 2019, Travelodge has delivered another set of strong results in challenging conditions.

The slow UK economy contributed to a 2.0% fall in RevPAR for the STR Midscale and Economy segment (MSE) as a whole during 2019, with marginally positive RevPAR growth in London more than offset by very significant RevPAR declines in the Regions.

Notwithstanding these slow trading conditions, our focus on delivering affordable travel helped us once again outperform our competitors, with full year like-for-like RevPAR up 0.3% on the prior year, more than 2.3% pts above our competitive segment. This performance was driven by our continued focus on delivering value for money, alongside a positive customer reaction to our new improved pull-out beds and excellent results from our new 'SuperRooms'. This focus on moving our customer offer forward helped us achieve record occupancy levels.

The good like-for-like performance, together with the contribution from our recently opened new hotels, including the 14 opened during the year, helped increase sales by £33.0m, or 4.9%.

We did continue to face cost pressures during the year, including rising energy costs and the impact of the National Living Wage. We put in place an extensive programme of investments to reduce our carbon footprint and boost energy efficiency, alongside other productivity measures, and these helped us to maintain margins.

Overall EBITDA (adjusted)⁽¹⁾ was up £6.0m to £126.4m (2018: £120.4m), our sixth year of growth in profitability.

Governance

For the year ended 31 December 2019, the Board has chosen to adopt the Wates principles as an appropriate framework when making a disclosure regarding corporate governance arrangements, to demonstrate how the Board makes decisions for the long term success of the company and its stakeholders and also having regard to how the Board ensures the Group complies with the requirements of Section 172 of the Companies Act 2016.

Our reporting against the Wates Principles has been included on pages 25 to 27. Throughout 2019, the Board will continue to review and challenge how the Group can improve engagement with its employees and stakeholders.

(1) EBITDA (adjusted) = Earnings before interest, tax, depreciation and amortisation, and before rent free adjustment, non-underlying items and reflective of the position in line with the accounting principles applicable to the previous year for purposes of comparability (before IFRS 16). Non-underlying items have been removed as they relate to non-recurring, one-off items.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

Becoming a sustainable business

We continually strive to maximise the social and economic benefits of our growth whilst minimising the environmental impacts of our operation.

We have engaged a specialist agency to support in the development of a new sustainability strategy for the years ahead.

Outlook

The Covid-19 situation has created significant challenges for the whole UK hospitality industry.

Prior to the onset of Covid-19, Travelodge continued to perform strongly in the first two months of 2020, delivering further growth in sales and profitability. We also continued to strongly outperform the MSE segment. However, from the beginning of March, the Covid-19 situation had a significant effect on sales and forward bookings. The overwhelming majority of our UK hotels were closed for the whole of the second quarter, although a number remained open to support NHS staff, key workers and those requiring temporary accommodation.

We started to re-open the full network of hotels at the beginning of July 2020 and expect the majority of our hotels to be open by the end of August. We have put in place a range of new measures to address safety as a result of Covid-19, including protective screens, provision of sanitizer for customers and other additional cleaning measures under our Travelodge Protect+ programme.

It remains too early to assess the immediate future trading environment with confidence, however our current estimates suggest that revenue in 2020 has the potential to be approximately half that in 2019, although there are clearly significant ranges of possible outcomes. We estimate that each year on year percentage point decrease in RevPAR on our full estate in 2020 equals an approximately £6-7m impact on sales for the full year.

We estimate that in normal circumstances approximately two-thirds of our costs are relatively fixed and around a third is then directly or indirectly related to occupancy. In normal circumstances, approximately half our operating cost base is the relatively fixed costs of property, with the majority being rent on our leased assets, followed by business rates and other charges. In 2020, we will benefit from the rent reduction secured by the CVA as well as the UK government's 12 month hospitality business rates holiday. Wages, principally of our hotel teams, normally constitute approximately a quarter of our operating costs, however, our 2020 results are expected to benefit from the ability to place more than 8,000 team members on the UK Job Retention Scheme during the second quarter.

Our remaining cost items are balanced between direct costs of occupancy and general fixed costs and we have taken mitigating action to restrict discretionary spending wherever possible. There are expected to be additional costs to operate under our new TravelodgeProtect+ programme, which involves additional cleaning, sanitising and personal protective equipment as well as the impact of social distancing.

We have a well-invested asset base that benefits from the recent addition of our Travelodge Plus hotels, SuperRooms, and energy efficiency measures. Maintenance expenditure typically accounts for around forty percent of annual capex and we would expect some savings in 2020 as a result of lower occupancy. Our annual planned refit expenditure would typically account for around a third of our annual capex, and we have deferred a substantial element of this. We also expect to defer all other non-essential capex until the current situation abates.

We were originally expecting to open 17 new hotels in 2020 prior to the onset of Covid-19, and were on track with 6 due to be trading by mid-August. However, as the majority of the remaining hotels were to open in the second half of the year, we expect the majority may be subject to delay given the restrictions on worker movement since March. It is too soon to assess realistic revised opening dates.

We have put in place appropriate liquidity measures and moved immediately to conserve cash as the Covid-19 situation commenced. We drew down £40m from our existing revolving credit facility on 17 March 2020 as well as the Group securing a new £60m revolving credit facility and additional

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

equity commitments of up to £40m, both from existing ultimate shareholders (or affiliates thereof) and completed the CVA.

Overall Position

The Covid-19 situation is an unprecedented short-term challenge and the wide variations in potential outcomes present material uncertainty. However, Travelodge consistently delivered high levels of quality, growth and cashflow prior to the onset of this situation, and we remain confident in the long-term prospects for the sector.

Our Business Model

Founded in 1985, Travelodge is the second largest hotel brand in the United Kingdom based on number of hotels and number of rooms operated.

We lease, franchise, manage and own more than 588 hotels and more than 44,800 rooms throughout the United Kingdom, Spain and Ireland.

The United Kingdom has one of the world's strongest hotel markets.

Who We Are

- UK's second largest hotel brand based on number of hotels and rooms
- Positioned in the attractive value segment with 588 hotels and serving c. 19 million business and leisure customers
- Well invested modernised hotel portfolio
- Well balanced approximately even business / leisure customer split
- Almost 90% booking direct, with c. 80% through own websites
- Low upfront capex leasehold model

Historically, the performance of the UK hotel industry has correlated with the strength of the UK economy generally. Other macro-economic factors also influence the demand for hotel accommodation from domestic travellers, particularly business investment, employment levels, wages, consumer spending and consumer confidence. The performance of the UK hotel industry is also affected by the number of travellers coming to the United Kingdom from other countries.

We operate in the midscale and economy ("MS&E") sector of the hotel market (as defined by STR) and are positioned as a low-cost operator, offering standardised, modern guest rooms at affordable prices to both business and leisure customers. We aim to offer our customers the right balance of location, price and quality for their travel needs.

Within the UK hotel market, the midscale and economy branded sector is the largest and has demonstrated strong growth and resilience. According to data produced by STR, the top two hotel brands by number of hotels and number of rooms in the United Kingdom, are positioned in the midscale and economy branded sector. In addition, budget operators have historically shown stronger resilience than the wider industry across the hotel cycle.

We operate three hotel formats, namely our core Travelodge hotels featuring standard rooms, Travelodge hotels with standard rooms and "premium economy" SuperRooms and Travelodge Plus hotels featuring new-look standard rooms, SuperRooms and new-style bar cafes.

We estimate that we attracted approximately 19 million customers in 2019 and approximately 90% of our bookings were made through our direct channels, including our own website.

In 2019, we employed nearly 12,000 people across our hotels and support offices, the majority of whom worked in our hotels on hourly paid contracts.

We operated 43,312 rooms in 571 hotels, with c. 22% of our rooms located in London and c. 78% located in regional areas across the United Kingdom. The majority of our rooms in the United Kingdom are leasehold, we also operated one hotel under a freehold and 11 hotels under management contracts in the United Kingdom. More than 90% of our UK revenue for the year ended 31 December 2019 was generated from accommodation, with the remainder from food and beverage and retail and other sales. In addition, we operated a further 899 rooms in 12 hotels under franchise in Ireland and Northern Ireland.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

We benefit from high levels of customer satisfaction which we attribute to the quality of our offering and standardised work practices. We have made significant investments to strengthen the quality of our offer. Between 2013 and 2015, we undertook a significant Modernisation Program to improve the quality and consistency of our hotels by giving the standard rooms in our core estate a modern look and feel.

Approximately 35,000 rooms were modernised under our Modernisation Program, which introduced the new Travelodge "Dreamer" bed, separate pull-out beds for children in larger rooms and consistent decoration, artwork and bedding. Approximately 90% of our hotel rooms operate with this core format.

Following this initial modernisation of our core estate, in 2017 we commenced our normal Refit Upgrade Cycle, which is expected to see all hotels receive refurbishment on a planned schedule over an expected seven to eight year cycle, with interim works in selected hotels with heavier usage patterns.

In 2017, we also introduced a new "premium economy" room type, SuperRooms, which offers an enhanced specification, including a coffee machine, rain shower, choice of pillow and in-room hairdryer, iron and ironing board. As of 31 December 2019, we operated 1,813 SuperRooms in 51 hotels across the United Kingdom.

In 2018, we launched a new hotel format, Travelodge Plus, which features our new-look standard rooms, our SuperRooms and new-style bar cafes. As of 31 December 2019, we operated eight Travelodge Plus hotels in London, Edinburgh, York, Brighton, Gatwick Airport and Marlow.

The investments in our estate are supported by a standardised and disciplined approach to operations. We operate our hotels with a standardised ten-step room cleaning process, we have processes in place to monitor our customers' experience, we provide in-person and online training modules for our employees and we rigorously benchmark our performance by using internal customer surveys and external benchmarking, such as TripAdvisor surveys.

Our strong physical assets and standardised operational processes have allowed us to deliver high levels of customer satisfaction. As of December 2019, our UK hotels had an average TripAdvisor score of four stars out of five and in 2019 we received 325 TripAdvisor Certificates of Excellence, five times the number received in 2014. We were also recognised by TripAdvisor as one of its Top 10 Global "Most Excellent" Large Hotel Chains in 2018.

This combination of improved quality assets and stronger operations, coupled with growth in customer satisfaction, has helped our UK RevPAR growth to outperform the MS&E sector and the UK hotel market as a whole in recent years.

Notwithstanding the short-term challenges presented by Covid-19, we believe there is further long-term potential to deliver like-for-like RevPAR growth as the budget sector gains further traction, alongside the opportunity to increase the penetration of branded value hotels in the United Kingdom.

Strategic Progress

Our mission is to provide affordable travel for everyone. We are positioned as the low-cost choice and we aim to offer our customers the right balance of location, price and quality that suits their travel needs.

Location

We successfully opened 14 new hotels in 2019 further enhancing our network with a mix of key cities and regional towns. These openings included two further new build 'Travelodge Plus' hotels in Marlow, Buckinghamshire and Edinburgh.

At the end of 2019 our network stood at 583 hotels across the UK and Ireland and we have opened a further 4 hotels since the year end. We have a substantial secure pipeline but expect that the Covid-19 situation will impact the originally scheduled opening dates. We expect to have greater visibility of our revised opening timetable by the year end.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

Price

We have continued to stay true to our mission to deliver affordable travel for everyone. We maintained highly competitive pricing throughout the year, winning further levels of business customers through our business membership programme and continued to see excellent occupancy levels, especially at weekends where we benefited from the trend for more frequent short-breaks and high occupancy in our family rooms. We have extended our choice of rates, with availability of both saver and fully flexible rates, and bundled dinner, bed and breakfast and rates for business customers looking to manage expenses.

Quality

We have been on a significant drive to improve quality over the last five years and this continued throughout 2019. We invested in further modernisation of our hotels, with a £17m investment programme during the year, adding USB ports by the bedside and upgrading to more energy efficient LED lighting, alongside investments to introduce upgraded, higher quality pull-out beds in our family rooms.

Two years ago we led the industry with the launch of our premium economy 'SuperRooms' adding that little bit more choice for customers. These are now present in 51 hotels (1,813 rooms) across the UK and have been well received by both business and leisure customers alike. We also launched our first Travelodge Plus hotels, which offer a stylish new look and a new restaurant design that includes laptop power and social spaces for groups. These are now performing strongly and during the year we added two further hotels, in the Thames Valley and in Edinburgh, bringing the total to eight.

Supported by these initiatives and the work of our nearly 12,000 colleagues across the country, our average TripAdvisor rating sits at 4 stars and we received a record 325 TripAdvisor Certificates of Excellence, an increase of 101 more than the previous year.

Strategy Update

Our record results in 2019 brought us to the end of our initial five year strategic plan to build a new Travelodge.

During that period the business has undergone a significant transformation.

For our customers, we have now invested more than £150m in modernising our hotels, installing the new Travelodge Dreamer beds in every hotel, replacing outdated sofa beds with new separate pull-out beds for children and introducing a new-look design. We added additional choice, leading the industry with the launch of 'SuperRooms' and Travelodge Plus. We extended our food and beverage offer with wider choice and healthier options. We also launched our Travelodge Business Membership, which offers expense controls and special rates to small and medium businesses looking to get the most from their travel budgets.

For our teams, we ended the outsourcing of housekeeping, bringing all our housekeeping colleagues into the Travelodge family. We abolished zero hour contracts, and introduced guaranteed minimum hours.

We extended our Aspire management development programme and are proud that the vast majority of our hotel managers began their careers as entry-level colleagues and have significantly improved their careers with us. We continued to work on flexible hours, including our high profile campaigns to attract working parents back into the workforce and to allow students to combine a few hours work in their university location during term time with extended hours closer to home during vacations. Our focus on equality and diversity has helped us to a leading position where the majority of our hotel managers are women and we are ahead of industry benchmarks on diversity more widely.

For the communities we serve, we have continued to build our new hotels in a range of architectural styles, to better blend in with the local environment, and the addition of more than 75 new hotels since 2013 has directly created more than 2,000 new jobs right across the UK, with many more indirectly in architecture, construction and other trades. We have long been committed to further improvements in reducing environmental impact, removing plastic bottled toiletries more than 5 years ago, removing single use plastic cups and maintaining a rolling multi-

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

million programme of investment in energy efficiency that is both reducing our impact and reducing our costs.

All these changes have helped us to deliver growth in sales, outperformance compared to our rivals and improved profitability for each of the last five years, and we have been ranked as one of Britain's top ten fastest growing private businesses for each of the last three years in the FastTrack survey.

The improvement in our performance is indicated by the growth in our key metrics:

The improvement in our performance is indicated by the growth in our key metrics:

	2013	2019	Increase
RevPAR	£29.36	£41.75	+ £12.39
Total Revenue	£426.4m	£713.2m	+ £286.8m
EBITDA (adjusted)	£39.1m	£126.4m	+ £87.3m
Network size (rooms)	37,595	44,211	+ 6,616 rooms

Results

Results for the Company are for the full year ended 31 December 2019, with comparatives for the full year ended 31 December 2018.

Results are shown below, including the impact of the new IFRS 16 lease accounting.

In order to facilitate the comparability of the underlying business to the prior year following the adoption of IFRS 16 from 1 January 2019, additional columns have been added to reflect the position in line with the accounting principles applicable to the previous year:

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

	Year ended 31 December 2019			Year ended 31 December 2018		
	Comparable to 2018 Reported Results	Before IFRS 16 ⁽¹⁾ £m	IFRS 16 impact £m	Statutory £m	2018 Reported Results	Variance (2018 vs 2019 before IFRS 16 ⁽¹⁾) £m
Key income statement items						
Revenue		713.2	-	713.2	680.2	33.0
Operating expenses		(382.6)	-	(382.6)	(367.2)	(15.4)
Of which cost of goods sold		(42.3)	-	(42.3)	(41.8)	(0.5)
Of which employee costs		(170.7)	-	(170.7)	(162.5)	(8.2)
Of which other operating expenses		(169.6)	-	(169.6)	(162.9)	(6.7)
Net external rent payable		(204.2)	207.9	3.7	(192.6)	(11.6)
EBITDA (adjusted)⁽²⁾ / EBITDA⁽³⁾		126.4⁽²⁾	207.9	334.3⁽³⁾	120.4	6.0
Rent free adjustment ⁽⁴⁾		(2.3)	2.3	-	(1.9)	(0.4)
Depreciation		(44.4)	(115.4)	(159.8)	(41.9)	(2.5)
Amortisation		(17.5)	11.9	(5.6)	(16.7)	(0.8)
Operating profit (before non-underlying items)		62.2	106.7	168.9	59.9	2.3
Finance costs		(13.5)	(160.6)	(174.1)	(13.5)	-
Finance income		15.1	-	15.1	11.7	3.4
Profit / (Loss) for the period (before non-underlying items)		63.8	(53.9)	9.9	58.1	5.7
Non-underlying items		(18.5)	3.7	(14.8)	(9.1)	(9.4)
Profit / (Loss) for the period before tax		45.3	(50.2)	(4.9)	49.0	(3.7)
Income tax		1.9	2.5	4.4	9.8	(7.9)
Profit / (Loss) for the period		47.2	(47.7)	(0.5)	58.8	(11.6)

(1) - Before IFRS 16 - In order to facilitate the comparability of the underlying business to the prior year following the adoption of IFRS 16 on 1 January 2019, additional columns have been added to reflect the position in line with the accounting principles applicable to the previous year.

(2) - EBITDA (adjusted) = Earnings before interest, tax, depreciation and amortisation, and before rent free adjustment, non-underlying items and reflective of the position in line with the accounting principles applicable to the previous year for purposes of comparability (before IFRS 16). Non-underlying items have been removed as they relate to non-recurring, one-off items.

(3) - EBITDA = Earnings before interest, tax, depreciation, amortisation and non-underlying items.

(4) - In many of our leases we receive a rent free period at the beginning of the lease term. Under IFRS, the benefit of this rent free period is held as an accrual on our balance sheet and is recognised in our 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. As a result, our IFRS rent expense does not reflect our cash payments of rent in any period. EBITDA in each period recognises the portion of the credit attributable to such period as if such credit were applied on a straight line basis until the next rent review, normally five years, which is the measure which is used for internal management reporting.

Revenue

Revenue increased by £33.0m, or 4.9%, from £680.2m for the year ended 31 December 2018 to £713.2m for the year ended 31 December 2019, with a good contribution from our recently opened new hotels, including the 14 opened in 2019 and the maturing 17 new hotels opened in 2018, including London City which continues to perform strongly. Like-for-like UK RevPAR growth of 0.3% was ahead of the STR MSE segment by 2.3pts, which showed a decline of (2.0)%. UK food and beverage sales benefited from menu optimisation and occupancy growth.

Operating expenses

Operating expenses increased by £15.4m, or 4.2%, from £367.2m for the year ended 31 December 2018 to £382.6m for the year ended 31 December 2019. Cost increases were predominantly driven by increased costs from our new and maturing hotels opened since 2018, together with higher operational costs as a result of the cost pressures facing the sector as a whole and occupancy growth.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

The group continued to identify and implement cost saving initiatives during the year with hotel cost efficiency programmes delivering savings across wages, laundry and maintenance. These efficiencies helped to partially offset the wider sector cost pressures.

Increases in cost of goods sold mainly reflect increased costs from our new and maturing hotels, partly offset by savings in like-for-like laundry and food and beverage costs.

Employee cost increases reflect the impact of the National Living Wage and pension auto-enrolment in the like-for-like estate and the additional staff in our new and maturing hotels.

Increases in other operating expenses are largely driven by our new and maturing hotels as well as customer acquisition costs in line with revenue and higher banking charges and fees in line with increased revenue and the increased mix of credit card payments.

Net external rent payable

Net external rent payable (before rent free adjustment and before IFRS 16⁽¹⁾) increased by £11.6m, or 6.0%, from £192.6m for the year ended 31 December 2018 to £204.2m for the year ended 31 December 2019. This increase was due to 14 new hotel openings during the year, the annualisation of new hotel openings in 2018 and upwards only rent reviews predominantly linked to RPI.

In many of our leases we receive a rent free period at the beginning of the lease term. Prior to IFRS 16, the benefit of this rent free period is held as an accrual on our balance sheet and is recognised in our 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. As a result, our rent expense does not reflect our cash payments of rent in any period. EBITDA (adjusted) in each period recognises the portion of the credit attributable to such period as if such credit were applied on a straight line basis until the next rent review, normally five years, which is the measure which is used for internal management reporting.

On adoption of IFRS 16 on 1 January 2019, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases.

The rent payable for operating leases previously reported under IAS 17, within EBITDA (adjusted), has been replaced by depreciation of the right-of-use asset and notional financing costs on the lease liability.

Depreciation / amortisation

Depreciation (before IFRS 16⁽¹⁾) increased by £2.5m, or 6.0%, from £41.9m for the year ended 31 December 2018 to £44.4m for the year ended 31 December 2019. This is mainly due to new hotel openings and ongoing investment in the maintenance and refurbishment of our estate, including upgrading our hotels to offer SuperRooms, Travelodge Plus and improved Wi-Fi. Energy efficiency investments, principally in LED lighting and heating controls, continued throughout the year and also contributed to the increased depreciation charge.

(1) Before IFRS 16 - In order to facilitate the comparability of the underlying business to the prior year following the adoption of IFRS 16 on 1 January 2019, additional columns have been added to reflect the position in line with the accounting principles applicable to the previous year.

Amortisation (before IFRS 16⁽¹⁾) increased by £0.8m, or 4.8%, from £16.7m for the year ended 31 December 2018 to £17.5m for the year ended 31 December 2019. This is mainly due to ongoing website development.

Following the adoption of IFRS 16 on 1 January 2019, depreciation has increased by £115.4m, reflecting a charge for the right of use assets, and amortisation has decreased by £(11.9)m, reflecting a reclassification of leasehold premiums to right of use assets.

Finance costs and income

Finance costs (before IFRS 16⁽¹⁾) of £13.5m were in line with the prior year. Following the adoption of IFRS 16 on 1 January 2019, a notional additional finance cost of £160.6m has been incurred relating to the lease liabilities.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

Finance income of £15.1m for the year ended 31 December 2019 was principally interest received from Group undertakings.

Non-underlying items

Non-underlying items (before taxation and the impact of IFRS 16⁽¹⁾) of £18.5m for the year ended 31 December 2019 includes £15.0m for the impairment of intangible assets and property plant and equipment, together with a net onerous lease provision reassessment of £3.5m.

The application of IFRS 16 results in non-underlying items reducing by £3.7m, due mainly to the reversal of the net onerous lease provision reassessment of £3.5m as rent is no longer charged under IFRS 16, together with a £0.2m reduction to the impairment charge given the different basis of impairment testing, bringing the total statutory impairment charge to £14.8m for the year.

Non-underlying items (before taxation) of £9.1m for the year ended 31 December 2018 included £6.7m for the impairment of fixed assets, £3.1m of net additional provisions recognised, a £0.8m loss relating to the surrender of the lease at the closed Gatwick Airport hotel and an inflow of £1.5m relating to the surrender of the lease at Cambridge Lolworth.

Taxation

Income tax is recognised based on management's best estimate of the income tax rate expected for the financial year, which includes the impact of recently enacted legislation in relation to hybrid mismatches, corporate interest restriction and amendments to the use of carried forward losses.

There is an overall income tax credit of £4.4m for the period 1 January 2019 to 31 December 2019. There is an overall income tax credit of £9.8m for the period 1 January 2018 to 31 December 2018. The tax credit in both years relates entirely to deferred tax.

The deferred tax credit of £4.4m for the period from 1 January 2019 to 31 December 2019 is made up of a current year credit of £6.5m, a prior year adjustment charge of £1.3m and a £0.7m charge from the effect of changes in tax rates.

Cash tax payments of £0.8m (UK £0.8m, Spain £0.6m) were made during the year (2018: £0.7m).

IFRS 16

As a result of the adoption of IFRS 16 from 1 January 2019, rent payable for operating leases of £207.9m, the rent free adjustment of £2.3m and amortisation of lease premiums of £11.9m have been replaced by depreciation of the right of use assets of £115.4m and a notional financing cost of £160.6m relating to the lease liabilities.

The impact of the application of IFRS 16 results in a reduction of non-underlying charges of £3.2m, being the reversal of the onerous lease provision of £3.0m not required under IFRS 16 and a £0.2m reduction to the impairment charge, bringing the total statutory impairment charge to £14.8m for the year.

(1) Before IFRS 16 - In order to facilitate the comparability of the underlying business to the prior year following the adoption of IFRS 16 on 1 January 2019, additional columns have been added to reflect the position in line with the accounting principles applicable to the previous year.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

Funding, Covenant Compliance & Going Concern

The Group of companies that Travelodge Hotels Ltd is a subsidiary of ("the Group") has the following funding structure:

		31 Dec 19	31 Dec 18
		£m	£m
Bonds	- Fixed rate	-	232.0
	- Floating rate	440.0	195.0
	- Issue costs	(7.9)	(6.2)
Secured Debt		432.1	420.8
Cash		(89.2)	(81.8)
External Net Debt		342.9	339.0

Senior secured fixed rate sterling denominated notes of £290.0m were issued on 10 May 2016 with a termination date of 11 May 2023. Of these, £29.0m were repaid on 28 April 2017, a further £29.0m were repaid on 3 January 2018 and the remaining £232.0m were repaid on 5 July 2019. Interest was fixed at 8.5% and payable on a semi-annual basis.

Senior secured floating rate sterling denominated notes of £165.0m and £30.0m were issued on 28 April 2017 and 3 January 2018 respectively, with a termination date of 15 May 2023. Interest was floating at three month LIBOR plus a margin of 4.875% and payable on a quarterly basis. These notes were repaid on 5 July 2019.

On 5 July 2019 new senior secured floating rate sterling denominated notes of £440.0m were issued with a termination date of 15 July 2025. Interest is floating at three month LIBOR plus a margin of 5.375%. Interest is payable quarterly each January, April, July and October, commencing in October 2019. The notes may be redeemed at any time on or after 15 July 2020, at par.

Non-underlying costs of £15.3m were incurred including break costs of £9.9m and the write off of unamortised loan issue costs in respect to the existing facilities of £5.4m. Further loan issue costs of approximately £8.6m will be amortised over the life of the facility in line with generally accepted accounting practice.

The total funding of the Group is summarised below:

	31 Dec 19	31 Dec 18
	£m	£m
Bonds	432.1	420.8
Unsecured (Loan Notes)	111.2	97.0
Total Funding	543.3	517.8

As part of the refinancing on 5 July 2019, the revolving credit facility ("RCF") was reduced from £50m to £40m and the LOC facility of £30m was retained, with the springing covenant trigger point being increased to 40% utilisation of the full £70m RCF/LOC facility. The facility was also extended from April 2022 until July 2024.

At the balance sheet date, a sterling denominated revolving credit facility of £40m was available to the Group until July 2024. At the date of these financial statements the facility was fully drawn. We had also entered into a further super senior revolving credit facility of £60m (the "SSRCF") provided by the ultimate shareholders (or affiliates thereof), £30m of which was drawn.

At 31 December 2019, letters of credit were in issue to the value of £14.8m (2018: £14.8m), but not called upon (and so not utilised for the purposes of the springing covenant trigger).

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

Under our current financing structure covenants are generally tested upon the occurrence of an event rather than on an ongoing basis, other than the springing covenant in the RCF/LOC facility, so 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 and the RCF/LOC facility is not utilised by more than 40% (£32m).

After the balance sheet date, the RCF/LOC facility was amended (i) to provide the Parent and its subsidiaries with a financial covenant holiday for the relevant periods ending 30 June 2020 until and including 30 June 2021 and (ii) to require the Parent to ensure that available liquidity is not lower than £10m for any period of five (5) consecutive business days and provide monthly consolidated cashflow forecasts for the Travelodge Group; (b) to provide that no Restricted Payments (as defined in the RCF/LOC facility agreement) shall be permitted to be made under the general basket for Restricted Payments until 30 June 2021; and (c) to provide that a company voluntary arrangement under Part 1 of the Insolvency Act 1986 ("CVA") shall not constitute a default or event of default under the RCF/LOC facility agreement.

In addition, pursuant to an equity commitment letter dated 3 June 2020, certain of the Company's ultimate shareholders entered into commitments to make equity contributions of up to the aggregate principal amount of £40m. The provision of £10m of such funding pursuant to the equity commitment letter is subject to certain remaining conditions, including a material adverse effect condition, defined in customary terms, but including the provision for a government imposed lockdown or any similar circumstance that impacts at least a majority of the number of Travelodge hotels in England for a continuous period of two weeks or more at any time after 4 July 2020. The provision of the further £30m of such funding is subject to the foregoing conditions as well as the replacement or refinancing of the Group's £60m SSRCF with a third party on terms satisfactory to the ultimate shareholders.

The ultimate shareholders of the Company have undertaken not to seek cash payments or distributions from the Group during the CVA Rent Concession Period, either under the terms of their equity arrangements or the SSRCF. For the avoidance of doubt, this undertaking will not apply to distributions in certain limited circumstances, including the proceeds of a whole or partial sale of the business or equity, or a refinancing of the SSRCF. This undertaking will terminate on the termination of the CVA, the insolvency of the Company, or a breach of the terms of the SSRCF.

Going concern

In assessing the appropriateness of the going concern assumption, the Board has considered the possible cash requirements of the Company over the next 12 months, taking into account the unprecedented circumstances caused by Covid-19, the impact of the CVA and availability of both debt and equity funding for the Group, which the Company is reliant on.

Availability of funding

The Company has fully drawn the Group's existing £40m RCF and agreed revised covenant terms with its banking partners, the Group entered into a new £60m SSRCF provided by the ultimate shareholders (or affiliates thereof) and, pursuant to an equity commitment letter dated 3 June 2020 (and subsequently amended on 15 June 2020), certain of the Group's ultimate shareholders entered into conditional commitments to make equity contributions of up to the aggregate principal amount of £40m.

The equity commitment letter is conditional, with the provision of £10m of such funding subject to certain remaining conditions, including a material adverse effect condition, defined in customary terms, but including the provision for a government imposed lockdown or any similar circumstance that impacts at least a majority of the number of Travelodge hotels in England for a continuous period of two weeks or more at any time after 4 July 2020. The provision of the further £30m of such funding is subject to the foregoing conditions as well as the replacement or refinancing of the Group's £60m SSRCF with a third party on terms satisfactory to the ultimate shareholders. The Group has market-tested the opportunity to refinance and there has been credible interest from reputable capital providers. As this equity commitment is not unconditionally committed, it cannot be relied upon to support the going concern assumption.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

Under the revised covenant terms for the RCF, the Group's existing springing covenant requirements, which apply if drawings under the RCF are £32m or more, have lapsed immediately and have been replaced with a minimum liquidity covenant of £10m, until June 2021, after which the business returns back to the previous quarterly net leverage covenant tests from September 2021.

Cash flow forecasts

The Board has prepared cash flow forecasts under a number of scenarios for a period of 17 months from the date of approval of these financial statements to the end of 2021.

The base case scenario includes the benefits of actions already taken by management to enable the business to successfully trade through the impact of Covid-19, these involve a number of key components including: continued action to preserve cash flow with all discretionary spend halted and all non-essential capex deferred; making use of government measures where possible including furloughing more than 8,000 team members through the second quarter under the Job Retention Scheme and benefiting from the Hospitality Business Rates Relief programme; drawing down on our existing facilities; accessing new facilities and equity contributions; and the Company agreeing a Company Voluntary Arrangement ("CVA").

The base case assumes that the majority of hotels are reopened for trading during July 2020, and gradually build back towards pre-Covid-19 levels of trade, ending the year with revenue down c. 15% in December and recovering to pre-Covid-19 levels by mid-2021. Under this base case scenario, the Company is expected to continue to have reasonable levels of headroom relative to the total funding available to it and to comply with the revised banking covenants.

Under the terms of the CVA, assets were categorised according to their strategic importance and trading performance. 70 Category A assets, which accounted for approximately 45% of 2019 hotel EBITDA, will receive their full rent and are not entitled to a break clause. Landlords of Category B, C1 and C2 hotels have reduced rents for the temporary period to the end of December 2021 and have the option to exercise a break right under their leases. This break right must be exercised by 20 November 2020 in the case of the 456 Category B hotels and by 31 December 2021 in the case of 29 Category C1 and 7 Category C2 hotels. Travelodge has the benefit of a break right on the Category C2 leases from 31 December 2021. The Company can confirm that no break rights have yet been exercised for any hotel leases.

No single landlord owned assets accounting for more than 10% of the Company's hotel level EBITDA in 2019 and no individual property with break rights accounted for more than 1% of the 2019 hotel level EBITDA. There were only 24 hotels that individually accounted for more than £1m in 2019 hotel level EBITDA and all but one of these hotels were categorised as Category A.

The Company remains confident that it will be best placed to continue to provide the best option for its landlords seeking to participate in the growth of the UK budget sector. The long-term prospects for budget hotels remain strong, and prior to Covid-19 the Company delivered class leading growth and outperformance, with UK RevPAR growth ahead of its competitive set for five years in a row. Travelodge benefits from a strong brand of more than thirty years standing in the UK, a direct distribution model and minimal use of online travel agents, a high level of direct corporate sales and leading cost and capital expenditure efficiency models. There are likely to be substantial costs, uncertainties and risks involved for landlords to switch to alternative tenants, particularly if moving away from fixed income leases. The Company also now benefits from a strengthened covenant with its new funding arrangements and temporary rent reductions helping to support liquidity in the short-term, while allowing for a return to full rent payments from the end of 2021.

Our future performance will also be closely linked to the duration of any period of travel restrictions, the pace of recovery thereafter, and any changes in customer behaviour. The Board has also considered various other severe but plausible downside scenarios, including the possibility that the recovery of trade takes longer than assumed in the base case and the possibility that there is a second lockdown period in the next 12 months.

In these downside scenarios, the Group would only have sufficient liquidity if the equity commitment was available. If we exited the year with sales only having recovered to 50% of 2019

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

levels in Q4, with Q1 2021 then 25% below 2019 levels, and sales recovering to 2019 levels thereafter, if the equity commitment was available, the Group would expect to have sufficient, albeit minimal, liquidity. However, in the event of another government imposed lockdown or similar circumstance that impacts at least a majority of the number of Travelodge hotels in England in the later part of 2020 or early 2021, due to a second peak of Covid-19 infection, which occurred prior to refinancing and the additional £30m equity being injected, there would be a risk to liquidity if the conditionality in the equity commitment letter prevented the additional equity being available. In such circumstances the Group would seek to agree a waiver with the ultimate shareholders, however, the Board cannot predict with certainty how the ultimate shareholders would respond. If equity funding was not available from the ultimate shareholders, the Group would need to seek funding from other sources, however, the Board cannot predict with any certainty the availability of such funding.

Based on the above scenarios, taking account of reasonably possible changes in trading performance, the directors believe that it remains appropriate to adopt the going concern basis in preparing the consolidated financial statements. However, we are likely to continue to be subject over the next 12 months to the impact of Covid-19 and at this stage, we are unable to predict with any certainty the extent or duration of this impact on the Company.

It is therefore possible to conceive a downside scenario in which the Company would not have adequate resources to continue as a going concern for the foreseeable future. This would indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The Board emphasises that this arises solely due to the Covid-19 pandemic which is entirely outside the Company's influence or control. The Financial Statements, as drafted, do not include the adjustments that would result if the Company was unable to continue as a going concern.

Stakeholder Engagement

Accountability and transparency with stakeholders is key to the long term success of the Group. We consider our key stakeholders to be: customers, team members, shareholders and investors and other creditors including key operational suppliers, local authorities and community.

All company directors have a duty to act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. They have regard for:

- the likely consequences of any decision in the long term
- the interests of the company's employees
- the need to foster the company's business relationships with suppliers, customers and others
- the impact of the company's operations on the community and the environment
- the desirability of the company maintaining a reputation for high standards of business conduct,
- the need to act fairly as between members of the company

The Wates Corporate Governance Principles for Large Private Companies provides a framework for the Group to not only demonstrate how the Board of Thame and London Limited ("the Board") make decisions for the long term success of the company and its stakeholders, but also having regard to how the Board ensures the Group complies with its requirements of Section 172 of the Companies Act 2016. As a subsidiary of the Group, the Directors of Travelodge Hotels Limited have applied these requirements to these Company accounts. Our reporting against the Wates Principles has been included on pages 25 to 27 and should be read in conjunction with details on the stakeholder groups discussed below.

Our customers

Every year we serve approximately 19 million customers, across the UK and our other markets. We aim to engage extensively to understand customer needs and trends and to get feedback on their stays with us.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

We use a variety of customer feedback tools, including the compilation of TripAdvisor reviews and the gathering of internal 'Pillow Talk' customer reviews, both of which are used as key operational KPIs of the business. The Group also participates in the YouGov brand tracker service, as well as periodically developing formal customer research on specific topics alongside carrying out specific engagement with key clients. The findings of these are used to improve customer engagement, with knowledge being shared across the business.

Our team

We employ almost 12,000 colleagues and we estimate that we are currently creating more than 300 new jobs every year. We gather extensive feedback from our team-members from a range of sources.

At least every year we perform an employee engagement survey to highlight areas of improvement in communication of the Group's purpose.

The Board considers the results of all employee engagement surveys a good barometer of the team's confidence in the Group's strategic direction.

In 2019, we also established a Shadow Board that met for the first time in March. Comprising twelve members, ranging across the various roles within hotels and head office and chaired by the Chief Executive, the Shadow Board meets twice a year and provides an opportunity for team members to discuss issues and inform decision making on areas of strategy and how Travelodge operates.

We maintain a regular programme of conferences, quarterly senior management meetings and "town hall" meetings during the year which seek to engage and gain feedback from all levels of the business, whilst ensuring the Group's strategy, purpose and values are reinforced.

We also operate an Equality and Diversity group that recognises the benefits of having a diverse workforce with different backgrounds, solely employed on ability. The group meets quarterly and considers a wide range of topics relating to initiatives and policy.

If any employee wishes to raise concerns concerning the abuse of Group policies, procedures, fraud or other matters they can do so via an independent whistleblowing service, which are formally investigated and reported anonymously.

Our community

The Company operates in multiple locations across the UK and Ireland and actively seeks to engage with local councils, police forces and fire brigades to ensure our policies and procedures are appropriate and fit for the current economic and social landscape.

The Group's Charity Committee organise and promote fundraising on behalf of a nominated charity, chosen by a company-wide member vote, which is currently the British Heart Foundation. We also have continued our relationship with Pennies, the pioneering electronic donation box which allows customers to choose to make a small donation to the British Heart Foundation as part of the on-line booking process.

Our investors

As a significant leaseholder, we maintain regular landlord and developer briefings.

We routinely engage with our other key suppliers to mutually discuss the performance, risks and opportunities both parties face.

We also hold quarterly calls with our Group bond holders where we present our Group quarterly results and open the call for a questions and answers session. We also attend at least one external event where we make ourselves available for a group presentation and question and answer session and smaller meetings as requested.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

Sustainability

Travelodge seeks to be a responsible business in all we do. We place a strong emphasis on safety and security, the environment and our social responsibilities throughout the business.

We have engaged a specialist agency to support in the development of a new sustainability strategy, which will be reported on next year, as a step-change in our sustainability agenda.

As part of this strategy development process, we are in the process of undertaking an extensive materiality assessment, engaging a broad range of stakeholders including customers, team members, partners and local community groups to determine the most important issues for Travelodge to focus on.

Safety and Security

We base our safety on security on a combination of thorough risk assessment, clear policies and procedures, and controls.

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

To aid us to ensure that all our practices and procedures are correctly implemented we use an independent expert company to carry out unannounced safety audits at all our hotels. In addition to this, we are 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 personal data including both our customers and staff members is held in a safe and secure manner.

It is Travelodge policy to manage information in compliance with the General Data Protection Regulations ("GDPR"), which replaced the Data Protection Act (1998) 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.

Travelodge also works within the provisions of PCI DSS 3.2, and is audited as a tier one merchant annually. Credit card information is secured through industry-standard encryption techniques.

Environment

We work to evaluate areas of possible impact on the environment then work across the company to drive improvements.

During 2019 we continued to replace common area lighting with new energy efficient LED technology including motion sensors to switch off lighting when not needed.

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.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

Every new build Travelodge hotel has the following green features considered for inclusion:

- Low energy lighting such as LED
- Carpet that is C2C (Cradle to Cradle) certified
- Aerated showers
- Full insulation
- Windows and external fixtures fitted accurately for minimum energy leakage
- Stipulated sites will have a BREEAM⁽¹⁾ Rating and green travel plans
- Smart meters installed
- Variable Refrigerant Flow (VRF) heating and cooling system
- Dual flush toilets
- Combined Heat & Power boilers

(1) BREEAM stands for Building Research Establishment Environmental Assessment Method. It is an established method of measuring the sustainability of buildings.

Travelodge works with energy consultants to consider future improvements and has an Energy Governance group whose responsibility is to monitor the changing energy landscape and provide guidance and recommendation to the business. During 2019, we have considered the introduction of smarter ways of heating and cooling our hotels for both in-room electrically powered panel heaters or air-conditioning alongside common area controls.

Social impact

Travelodge has a strong record of developing its diverse team of people, raising their average incomes and improving their career prospects. We are proud to have higher than average representation of women and people of diversity in our team and of the high level of internal promotions.

Our team

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 and maintenance teams and a range of positions in our support centre.

We ended the practice of out-sourcing housekeeping in 2015. Since then we have introduced the National Living Wage for all colleagues, not just those over 25 years of age, and offer minimum guaranteed hours, with no zero hours contracts and more advance notice of shift patterns.

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 colleagues undergo a training programme to support them in being successful in their role and further training is made available for 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 roles to management positions. Our management development programme, 'Aspire' is central to our approach, helping Team Members to acquire practical supervisory and management skills and to secure promotion. Our colleagues develop further through on the job training.

As well as our commitment to developing and promoting colleagues from entry-level roles, Travelodge drives development throughout its management structures both in operations and the support centre in order to create opportunities for those who desire it.

By providing our colleagues with both full and part time career ladders, training and guaranteed hours we help improve our attraction and retention.

The Group engages with and listens to its team members through a number of internal channels, including an Equality & Diversity Governance Group which meets quarterly and considers a wide range of topics relating to initiatives and policy. We use the organisation's communication framework to engage the team in organisational initiatives.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

We also collate feedback using a colleague engagement survey, Your Voice, to gauge opinions, gain important people insight and to enable actions to encourage high levels of engagement throughout the business. Alongside this we review feedback left by both current and previous colleagues on external sites such as Glassdoor and Indeed.

Travelodge recognises the benefits of having a diverse workforce with different backgrounds and experiences, 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.

Gender Diversity

Travelodge recognises the great benefits of having a diverse workforce with different backgrounds, solely employed on ability and it supports the belief with policies on equality and diversity.

Our workforce gender diversity is broadly in line with occupational gender trends in the wider UK hospitality industry, with high levels of female applications, particularly in housekeeping roles and strong career progression from these and other entry level roles into management positions.

Travelodge monitors the composition of our existing workforce in order to support a culture of equality, diversity and inclusion. We remain committed to evolving our approach to ensure it remains embedded as a way of life across the organisation.

Pensions

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

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 as well as the UK Modern Slavery Act 2015. This included such areas as treatment and non-discrimination, data protection, equality and diversity and health and safety. Our statement as required by the Modern Slavery Act is available on our website.

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.

Anti-corruption & Anti-Bribery

It is Travelodge's policy to conduct all of our business in an honest and ethical manner. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate and implementing and enforcing effective systems to counter bribery and corruption.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

Local Community

Travelodge works with local stakeholders to understand the impact a hotel development can have on local communities. Leveraging the expertise of an experienced planning team and a flexible design approach allows us to employ modular building techniques to minimise construction noise. Care is taken at the design stage to mitigate ongoing traffic and noise for our communities, with green travel plans in place for new properties.

We continue to support the British Heart Foundation and customers on the Travelodge website are invited to donate 50p each time they book, using Pennies, the Digital Charity Box. Fundraising activities include the annual Support Centre 'Red Day' and a donation from Sleeppeeze every time a customer chooses to buy their own Dreamer bed.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

Principal risks and uncertainties

The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its brand and reputation, delivery of its strategy or its physical assets, people or systems.

This is carried out under a risk management framework including internal controls to protect our business as far as reasonably possible against known and emerging risks and a periodic review of those controls to reduce the risk of failing to achieve our business objectives.



Additional risks and uncertainties, not presently known to management or deemed less material currently, may also have an adverse effect on the business. Further, the exposure to each risk will evolve as we take mitigating actions, or as new risks emerge. The risks set out below provide a summary of the position at the date of the annual report.

Risks are grouped according to their overriding theme, and are described along with the strategic pillars to which they are linked, and the movement in net risk during the year.

	Principal Risk	Description	Key Mitigations	Change
Regulatory	Brexit	There is continued uncertainty regarding changes to trading arrangements, customs agreements and tariffs post Brexit. This may give rise to increased costs and inflationary pressures, with a resultant risk of recession.	Developments continue to be monitored, with regular review by our Operating Board. Purchasing contracts give price stability in the short to medium term. Contingency arrangements have been developed where possible.	➡
	Regulatory	Large financial penalties or enforced closures of our hotels could be imposed for breaches of Health & Safety or Data Protection legislation. Due to the number of hotels we operate, and the volume of customers who stay with us, we may be exposed to isolated incidents which fall below our expected standards and may expose us to prosecution.	<p>The Group has policies and procedures which address Health and Safety and Data Protection risks alongside dedicated resource, systems and processes. Primary Authority Partnerships are established for fire and Health & Safety.</p> <p>A full planned and preventative maintenance programme runs year-round, and incidents, accidents and near miss activity are reviewed to establish further action required. A cycle of training provides regular and systematic skills transfer, and hotel teams are briefed on their responsibilities and the Company escalation mechanisms, covering incident, accident, disaster recovery and interaction with emergency services. We use an independent third party to carry out unannounced safety audits at all our hotels and carry out an annual PCI DSS audit.</p> <p>The Group also maintains relevant insurance cover to an appropriate level both where required under regulation or where consider supportive to mitigate a specific risk.</p> <p>The Group has performed a full Risk Assessment in light of the COVID-19 pandemic in line with HSE and government guidance and implemented appropriate controls at our hotels and offices.</p>	➡

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

	Principal Risk	Description	Key Mitigations	Change
Operational	COVID-19	<p>In line with the UK Government's mandatory closure of all hotels and restaurants, the majority of the Group's hotels closed in March 2020 and have only started to reopen from July 2020.</p> <p>There is significant uncertainty about the on-going impact and duration of the current Covid-19 pandemic and what continued Government support will be available.</p> <p>Even after restrictions are lifted there is a risk of a recession in the UK possibly reducing demand from our customers. Customers may also become reticent about socialising in public settings.</p> <p>Whilst we are not currently able to assess the full financial impact of COVID-19 we anticipate a significant decline in EBITDA and cashflow. There is a risk we may not pass our covenant tests linked to our borrowings and also that the reduction of site profitability results in the impairment of sites.</p> <p>Due to the majority of our central office teams working remotely there is an increased risk of cyber threats including phishing.</p>	<p>The Group has implemented a recovery plan including actions already taken by management to enable the business to successfully trade through the impact of Covid-19, these involve a number of key components including:</p> <ul style="list-style-type: none"> - continued action by the company to preserve cash flow with all discretionary spend halted and all non-essential capex deferred; - making use of government measures where possible including furloughing more than 8,000 team members through the second quarter under the Job Retention Scheme and benefiting from the Hospitality Business Rates Relief programme; - drawing down on our existing facilities; - accessing new facilities and equity contributions; and - Travelodge Hotels Limited agreeing a Company Voluntary Arrangement ("CVA"). <p>For further details see the Strategic Report Going Concern section.</p> <p>We have reinforced good cyber security practice during the period since our central office was closed and have continued to review the risk of cyber threats since that time.</p>	
	Liquidity	<p>The company operates a highly operationally and financially geared leasehold model, with high levels of fixed costs (including rent), and is funded mainly by publicly traded bonds.</p> <p>Liquidity has become critical for the Group since the hotel closures in March 2020 due to the COVID-19 pandemic.</p> <p>A lack of appropriate levels of covenant headroom, cash resources, or inadequate cost controls could impact our financial performance.</p>	<p>The Group has implemented a recovery plan including securing additional financing and a waiver for covenants attached to its existing financing, for further details see the Strategic Report Going Concern section and the Post Balance Sheet Event note 23.</p> <p>More regular financial forecasting is being undertaken during this period of uncertainty and the Group's 5 year strategic plan will be reviewed to account for the impact of COVID-19.</p>	

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

	Principal Risk	Description	Key Mitigations	Change
Operational	Network	<p>As part of the recovery plan the Group successfully completed a Company Voluntary Arrangement in June 2020, under the terms of the CVA, Category A landlords will receive their full rent and are not entitled to a break clause. Landlords of Category B, C1 and C2 hotels have the option to exercise a break right under their leases. This break right must be exercised by 20 November 2020 in the case of Category B hotels and by 31 December 2021 in the case of Category C hotels.</p> <p>There is a risk that our network is materially reduced, affecting future profitability.</p>	<p>No single landlord owned assets accounting for more than 10% of the Company's hotel level EBITDA in 2019, no individual property with break rights accounted for more than 1% of its 2019 hotel level EBITDA and there were only 24 hotels that individually accounted for more than £1m in 2019 hotel level EBITDA, all but one of which were categorised as Category A and therefore do not have break rights.</p> <p>Any landlord seeking to exercise a break right will wish to consider the likelihood of a rival operator outperforming Travelodge (which has delivered class leading growth for the last five years in a row), the likely costs to switch brand (which are likely to be significant and disruptive) and the financial strength of the rival operator (which will need to be assessed against Travelodge's new additional funding and temporary reduced rents).</p>	↑
	Attraction of people	We employ nearly 12,000 people, particularly team members, assistant hotel managers and hotel managers. Market forces and particularly the impact of Brexit may result in a shortage of available workforce.	See details of how we manage our social impact and our team on pages 16 to 20.	⇒
	Competition	Our competitors could adjust their room rates, adversely impacting demand for our rooms.	See details of our strategy and our mission to deliver affordable travel for everyone on pages 5 to 8.	⇒
	Cyber and data	Our data and systems are exposed to external threats such as hackers or viruses. These could lead to data breaches, or disruption to our operation.	<p>We manage information in compliance with relevant Data Protection regulations including the Data Protection Act (2018).</p> <p>The Company reviews general data security regularly and invests in proportionate and appropriate resource, systems and processes to endeavour to ensure the security of its systems, its customer, card data, and its compliance with the regulatory requirements of both PCI DSS and data protection regulations.</p> <p>We have invested in cyber insurance to mitigate the consequences of major unforeseen, or unavoidable service disruptions which might be caused by a cyber-related incident.</p>	↑
	Loss of supplier	Travelodge is reliant on third parties for services, we become more exposed to their business interruption risks. This could impact on our ability to trade.	We maintain regular communications with existing suppliers and review their business continuity and disaster recovery plans. Where possible we ensure contingency supply options are available if required.	⇒

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

Strategic	Principal Risk	Description	Key Mitigations	Change
	Macroeconomic	The wider economy may suffer from adverse events which indirectly reduce the demand for our rooms or increase our costs, including pandemics, terrorism events, increases in inflation or interest rates or Brexit.	The Directors have reviewed the Group's financial projections for the foreseeable future, and in particular, the occupancy and rate forecasts which have been stress tested with plausible but pessimistic changes to those assumptions including macroeconomic shocks.	↑
	Climate Change	Climate change, biodiversity depletion and environmental pollution present risks to the business from a financial, operational and reputational perspective. Regulatory action to manage climate change could result in the introduction of additional taxes or restrictions being imposed.	We have engaged an external advisor to establish a current baseline and develop a sustainability strategy to facilitate future reduction. We are already in the process of actively reducing our carbon footprint through certain projects detailed on page 18.	↑

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

GOVERNANCE

Corporate Governance

For the year ended 31 December 2019, under the Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles for Large Private Companies.

As part of the Group's preparation for the new requirements a review has been undertaken during 2019 to assess to what extent the Group applies the Wates principles. The outcome of this review is set out below. Throughout 2020, the Boards of Thame and London Limited and Travelodge Hotels Limited will continue to review and challenge how the Group and Company can improve engagement with its employees and other stakeholders.

Principle	How has Travelodge applied it
Principle One: Purpose and Leadership An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.	<p>We have a clear strategy of becoming the "Favourite Hotel for Value" which defines our purpose and behaviours.</p> <p>Our purpose is provide affordable travel for everyone. We are the low-cost choice and aim to offer our customers the right balance of location, price and quality for their travel needs.</p> <p>Travelodge's purpose and behaviours were initially set in 2013, under the Boards direction, to guide the organisation's strategy, decisions, processes and culture and have been updated in 2019 as we have progressed implementation of the strategy. The purpose is communicated through the annual group conference and quarterly leadership events.</p> <p>As part of this the Group promotes amongst other things: a positive health and safety culture, an Equality and Diversity group, a Health and Wellbeing programme including employee assistance and a charity partnership with The British Heart Foundation.</p>
Principle Two: Board Composition Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.	<p>The Group has a separate Chairman and Chief Executive to ensure that the balance of responsibilities, accountabilities and decision making across the Group are effectively maintained. The Chairman plays a pivotal role in creating the conditions for overall Board and individual director effectiveness.</p> <p>The Group Board comprises a Chairman, Chief Executive, Chief Financial Officer and three owner appointed directors who are not involved in the executive management of the Group. Two of these Non-Executive Directors are appointed from within the owner entities they represent and the other is appointed by one of the owner entities, but works externally to their business.</p> <p>The Company Board comprises the same Chairman, Chief Executive and Chief Financial Officer as the Group Board.</p> <p>We are committed to further improving diversity of our board as opportunities arise, within the constraints of our articles of association, which provide that the majority of our board-members are direct representatives of our shareholders, and therefore not appointed by the company.</p> <p>The Non-Executive Director appointed by an Owner, but working externally to their business, brings experience in hospitality, digital, finance and audit, in addition to perspectives and challenge from outside the sectors in which the Group operates. All Directors of the Group Board have access to company secretarial advice and may, if they wish, take professional advice at the company's expense.</p> <p>The duties of the Group Board are executed partially through committees. One or more Board Directors attend and act as chair to the relevant committees, including Audit, Safety, Security and Risk, and Investment.</p>

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

Principle	How has Travelodge applied it
<p>Principle Three:</p> <p>Director Responsibilities</p> <p>The board and individual directors should have a clear understanding of their accountability and responsibilities.</p> <p>The board's policies and procedures should support effective decision-making and independent challenge.</p>	<p>Good governance supports open and fair business, ensures that the company has the right safeguards in place and makes certain that every decision it takes is underpinned by the right considerations. Whilst Board oversight is always maintained, key decisions are made by individuals and committees with the most appropriate knowledge and industry experience. The Group Board meets a minimum of six times a year, with further meetings convened as necessary.</p> <p>The Group Board delegates authority for day-to-day management of the company to the Chief Executive Officer. Certain governance responsibilities are delegated to other committees (Audit, Safety, Security and Risk and Investment) under a formal delegated authority framework approved by the chairman and Board. These committees include Board Directors who support effective decision making.</p> <p>The Group and Company Boards receive regular, timely information on all key aspects of the business including Health & Safety, risks and opportunities, the financial performance of the business, strategy, operational matters and market conditions, supported by specific Key Performance Indicators.</p> <p>Key financial information is collated from the Group's various accounting systems. The Group's financial function is appropriately qualified to ensure the integrity of this information and is responsible for remaining compliant with regulatory changes. Financial information is currently externally audited by PricewaterhouseCoopers LLP on an annual basis.</p> <p>Other key information is prepared by relevant internal functions. The processes for collecting data, as well as reporting of that data, are reviewed on an annual basis by the Group's Safety, Security and Risk function.</p> <p>We will demonstrate our commitment to this area by reviewing our audit capability of both financial controls and areas of business risk in 2020. In 2019 we reviewed our internal audit capability and designed a 3 year audit programme of financial controls at both our hotels and head office alongside other business risk mitigation controls.</p>
<p>Principle Four:</p> <p>Opportunity and Risk</p> <p>A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.</p>	<p>The Group and Company Boards seek out opportunity whilst mitigating risk.</p> <p>Strategic opportunities are highlighted to, and discussed with the Board at each Group Strategy review typically on an annual basis. Short term opportunities to improve performance are also reviewed in the normal course of business.</p> <p>The Group Audit Committee, consisting of the Independent Non-Executive Director (as chairman), the Chairman of the Board and other Board and functional leads attending by invitation as appropriate, ensures that material risks both inherent and emerging are identified and managed appropriately. The focus during 2019 was on reviewing the effectiveness of the approach to identification, classification and mitigation of risk including emerging risks.</p> <p>The Group Audit Committee meets every six months and continues to refine and improve the company's risk management framework and risk registers, working to ensure consistency across the functional areas of the company. The Strategic Report includes key risks that are monitored by the Group Audit Committee.</p> <p><i>The company's systems and controls are designed to manage, rather than eliminate the risk of failure to achieve business objectives and will always provide reasonable and not absolute assurance against a risk crystallising.</i></p>

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

Principle	How has Travelodge applied it
<p>Principle Five:</p> <p>Remuneration</p> <p>A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.</p>	<p>The Chairman of the Group is responsible for the overall executive compensation strategy, which is reported to and approved by the Group Board. Other key reported metrics to the Group and Company Boards on an annual basis are: Gender Pay Gap, take home pay of team members, pay reviews versus benchmark and CEO pay ratio to the Group.</p>
<p>Principle Six:</p> <p>Stakeholder Relationships and Engagement</p> <p>Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.</p>	<p>Accountability and transparency with stakeholders is key to the long term success of the Group. Travelodge consider their key stakeholders to be: customers, team members, shareholders and investors and other creditors including key operational suppliers, local authorities and community.</p> <p>Please refer to the Stakeholder Engagement section within the Strategic Report for a discussion of how we engage with each.</p>

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



Jo Boydell
Chief Financial Officer

30 July 2020

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 2019.

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 2019, with comparatives for the full year ended 31 December 2018.

For 2019, the Company made EBITDA (adjusted) of £126.4m (2018: £120.4m), Operating Profit before non-underlying items of £168.9m (2018: £59.9m), Profit before Tax and Non-underlying items of £9.9m (2018: £58.1m) and a Loss before Tax of £4.9m (2018: Profit of £49.0m).

Ownership

At 31 December 2019, the Directors regarded Anchor Holdings SCA Luxembourg as the ultimate controlling party.

The Company is owned by funds managed by GoldenTree Asset Management LP, Avenue Capital Group and Goldman Sachs Group, Inc.

GoldenTree Asset Management is a global 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, private equity and credit-themed equities. The firm was founded in 2000 with offices in New York, London, Singapore, Sydney, Tokyo and Dublin, and manages approximately \$33 billion in assets under management.

Avenue Capital Group is a global investment firm focused on private and public debt opportunities, equity and real estate markets in the U.S., Europe and Asia. Avenue is headquartered in New York with offices in London, Luxembourg, Madrid, Silicon Valley as well as 6 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.

Details of the executives who have responsibility for oversight of the Group on behalf of the funds can be found on page 36 of the 2019 Thame and London Limited annual accounts, which are publicly available.

Statement of Corporate Governance Arrangements

For the year ended 31 December 2019, under the Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles for Large Private Companies.

The strategic report discusses the Groups corporate governance arrangements in the section "Corporate Governance" on pages 25 to 27.

Statement with respect to Employee Engagement

The strategic report discusses the Groups approach with respect to employee engagement in the section entitled "Stakeholder Engagement" on pages 15 and 16 and further clarity is provided as part of the discussion with respect to the application of Principle 6 of the adopted Wates principles on corporate governance in the section "Corporate Governance" on pages 25 to 27.

Statement with respect to Business Relationships

The Strategic report discusses the Groups approach toward individual stakeholders and further clarity provided as part of the section entitled "Stakeholder Engagement" on pages 15 and 16.

TRAVELODGE HOTELS LIMITED

Currency

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

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.

Taxation

The underlying current tax credit for 2019 of £4.4m (2018: £9.8m) breaks down between a current tax credit of £nil (2018: £nil) and a deferred tax credit of £4.4m (2018: £9.8m).

Cash tax payments of £0.8m were made during the year (2018: £0.7m).

Dividend

The Directors do not recommend the payment of a dividend.

Independent Auditors

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

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



Jo Boydell
Chief Financial Officer

30 July 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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 101 "Reduced Disclosure Framework", 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 101, 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 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.

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.

On behalf of the Board



Joanna Boydell
Director

30 July 2020

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 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", 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 Report and financial statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2019; 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.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the company's ability to continue as a going concern. The company is reliant on support from the wider group and a group letter of support is in place to support the Company if required. The group has modelled a number of downside scenarios, which indicate that it requires the additional equity commitments from its ultimate shareholders. These commitments are only available if there is no subsequent second lockdown, or any similar circumstance that impacts at least a majority of the number of Travelodge hotels in England for a continuous period of two weeks or more, and/or the group has not refinanced the SSRCF. These conditions are outside of the group's control and if they were to arise, the Board would need to seek further funding, the availability of which is uncertain and also outside of the group's control. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Report and Financial Statements 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 2019 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 Statement of Directors' Responsibilities in respect of the Financial Statements set out on page 30, 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.

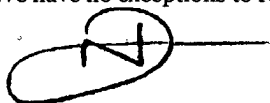
Other required reporting

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
30 July 2020

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

Year ended 31 December 2019							Year ended 31 December 2018		
Comparable to 2018 Report Results			IFRS 16 Impact			Statutory £m	2018 Reported Results (restated) ⁽²⁾		
Note	Underlying before IFRS 16 ⁽¹⁾ £m	Non-underlying before IFRS 16 £m	Total before IFRS 16 £m	IFRS 16 Impact £m	Non-underlying IFRS 16 £m		Underlying £m	Non-underlying £m	Statutory (as restated) £m
Revenue	4	713.2	-	713.2	-	713.2	680.2	-	680.2
Operating Expenses	5/6	(382.6)	-	(382.6)	-	(382.6)	(367.2)	-	(367.2)
Rent	5/6	(206.5)	(3.5)	(210.0)	210.2	3.7	(194.5)	(2.4)	(196.9)
EBITDA		124.1	(3.5)	120.6	210.2	3.5	118.5	(2.4)	116.1
Depreciation, amortisation & impairment	5/6	(61.9)	(15.0)	(76.9)	(103.5)	0.2	(58.6)	(6.7)	(65.3)
Operating Profit / (Loss)		62.2	(18.5)	43.7	106.7	3.7	59.9	(9.1)	50.8
Finance Costs	9	(13.5)	-	(13.5)	(160.6)	-	(13.5)	-	(13.5)
Finance Income	10	15.1	-	15.1	-	-	11.7	-	11.7
Profit / (Loss) before Tax		63.8	(18.5)	45.3	(53.9)	3.7	58.1	(9.1)	49.0
Income Tax credit / (expense)	11	(1.2)	3.1	1.9	3.1	(0.6)	10.7	(0.9)	9.8
Profit / (Loss) for the Period		62.6	(15.4)	47.2	(50.8)	3.1	68.8	(10.0)	58.8

(1) – Before IFRS 16 - In order to facilitate the comparability of the underlying business to the prior year following the adoption of IFRS 16 on 1 January 2019, additional columns have been added to reflect the position in line with the accounting principles applicable to the previous year, which has been restated following the adoption of FRS 101.

(2) – The Company adopted FRS101 (Financial Reporting Standard 101) issued by the Financial Reporting Council during the current year, with an effective date of adoption of 1 January 2018. The financial statements for the year ended 31 December 2018 were prepared under UK GAAP (Financial Reporting Standard 102) and as such all comparative information has been re-stated in accordance with the requirements of IFRS 1.

Memorandum - EBITDA (adjusted)⁽¹⁾

	Year ended 31 December £m	Year ended 31 December £m
EBITDA (adjusted) ⁽¹⁾	126.4	120.4
Rent free adjustment ⁽²⁾	(2.3)	(1.9)
EBITDA - Underlying before IFRS 16	124.1	118.5

(1) EBITDA (adjusted) = Earnings before Interest, tax, depreciation and amortisation, and before rent free adjustment, non-underlying items and reflective of the position in line with the accounting principles applicable to the previous year for purposes of comparability (before IFRS 16). Non-underlying items have been removed as they relate to non-recurring, one-off items.

(2) In many of our leases we receive a rent free period at the beginning of the lease term. Before IFRS 16, the benefit of this rent free period is held as an accrual on our balance sheet and recognised in our 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. As a result, our rent expense does not reflect our cash payments of rent in any period. EBITDA (adjusted) in each period recognises the portion of the credit attributable to such period as if such credit were applied on a straight line basis until the next rent review, normally five years, which is the measure which is used for internal management reporting.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
(Loss) / profit for the year	(0.5)	58.8
Other comprehensive income / (expense) for the year, net of tax	-	-
Total comprehensive (expense) / income for the year	(0.5)	58.8

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	Note	Share Capital £m	Retained earnings / (Accumulated Losses) £m	Total Equity £m
At 1 January 2019	24	300.0	86.2	386.2
Adjustment on adoption of IFRS 16 (net of tax)		-	(192.9)	(192.9)
Restated total equity at 1 January 2019		300.0	(106.7)	193.3
Loss for the year		-	(0.5)	(0.5)
Other comprehensive income / (expense)		-	-	-
Total comprehensive income / (expense)		-	(0.5)	(0.5)
At 31 December 2019		300.0	(107.2)	192.8

For the year ended 31 December 2018

	Note	Share Capital £m	Retained earnings £m	Total Equity £m
At 1 January 2018	24	300.0	27.4	327.4
Profit for the year		-	58.8	58.8
Other comprehensive expense		-	-	-
Total comprehensive income		-	58.8	58.8
At 31 December 2018		300.0	86.2	386.2

TRAVELODGE HOTELS LIMITED
**BALANCE SHEET
AS AT 31 DECEMBER 2019**

		31 December 2019			31 December 2018
		Comparable to 2018 Reported Results			2018 Reported Results (restated)
Note		Before IFRS 16 ⁽¹⁾ £m	Impact of IFRS 16 £m	Statutory £m	Statutory £m
NON CURRENT ASSETS					
Investments	12	-	-	-	-
Intangible assets	13	206.0	(187.4)	18.6	224.4
Property, plant and equipment	14	144.1	(11.6)	132.5	139.8
Right of use assets	15	-	2,488.3	2,488.3	-
Deferred tax asset	21	22.4	4.0	26.4	22.5
		372.5	2,293.3	2,665.8	386.7
CURRENT ASSETS					
Inventory		1.2	-	1.2	1.1
Intercompany receivables	16	296.7	-	296.7	245.9
Trade and other receivables	17	52.3	(36.6)	15.7	46.7
Cash and cash equivalents	20	83.1	-	83.1	77.1
		433.3	(36.6)	396.7	370.8
TOTAL ASSETS		805.8	2,256.7	3,062.5	757.5
CURRENT LIABILITIES					
Deferred tax liability	21	-	-	-	(1.6)
Intercompany payables	16	(168.5)	-	(168.5)	(160.4)
Trade and other payables	18	(116.0)	4.2	(111.8)	(125.1)
Lease liabilities	19	-	(45.8)	(45.8)	-
Provisions	22	(1.7)	1.6	(0.1)	(1.7)
		(286.2)	(40.0)	(326.2)	(288.8)
NON-CURRENT LIABILITIES					
Obligations under finance leases		(33.6)	33.6	-	(32.8)
Lease liabilities	19	-	(2,515.9)	(2,515.9)	-
Deferred tax liability	21	(19.1)	(0.9)	(20.0)	(19.6)
Accruals	18	(17.8)	17.8	-	(15.3)
Provisions	22	(15.7)	8.1	(7.6)	(14.8)
		(86.2)	(2,457.3)	(2,543.5)	(82.5)
TOTAL LIABILITIES		(372.4)	(2,497.3)	(2,869.7)	(371.3)
NET ASSETS / (LIABILITIES)		433.4	(240.6)	192.8	386.2
EQUITY					
Share capital	24	300.0	-	300.0	300.0
Retained earnings / (Accumulated losses)		133.4	(240.6)	(107.2)	86.2
TOTAL EQUITY		433.4	(240.6)	192.8	386.2

(1) – Before IFRS 16 - In order to facilitate the comparability of the underlying business to the prior year following the adoption of IFRS 16 on 1 January 2019, additional columns have been added to reflect the position in line with the accounting principles applicable to the previous year, which has been restated following the adoption of FRS 101.

(2) – The Company adopted FRS101 (Financial Reporting Standard 101) issued by the Financial Reporting Council during the current year, with an effective date of adoption of 1 January 2018. The financial statements for the year ended 31 December 2018 were prepared under UK GAAP (Financial Reporting Standard 102) and as such all comparative information has been re-stated in accordance with the requirements of IFRS 1.

These financial statements on pages 33 to 56 were approved by the Board of Directors and signed on their behalf by:



Joanna Boydell
Director

30 July 2020

Travelodge Hotels Limited

Company registration number 0769170

TRAVELODGE HOTELS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2019

1 GENERAL INFORMATION

Travelodge Hotels Limited (the Company) is a private company limited by share capital and was incorporated in the United Kingdom 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.

2 SIGNIFICANT ACCOUNTING POLICIES

Going Concern

The Company's business activities, together with its financial position, its cash flows, liquidity position and borrowing facilities, are described in the Directors' Report and Strategic Review on page 2.

In assessing the appropriateness of the going concern assumption, the Board has considered the possible cash requirements of the Company over the next 12 months, taking into account the unprecedented circumstances caused by Covid-19, the impact of the CVA and availability of both debt and equity funding for the Group, which the Company is reliant on.

Availability of funding

The Company has fully drawn the Group's existing £40m RCF and agreed revised covenant terms with its banking partners, the Group entered into a new £60m SSRCF provided by the ultimate shareholders (or affiliates thereof) and, pursuant to an equity commitment letter dated 3 June 2020 (and subsequently amended on 15 June 2020), certain of the Group's ultimate shareholders entered into conditional commitments to make equity contributions of up to the aggregate principal amount of £40m.

The equity commitment letter is conditional, with the provision of £10m of such funding subject to certain remaining conditions, including a material adverse effect condition, defined in customary terms, but including the provision for a government imposed lockdown or any similar circumstance that impacts at least a majority of the number of Travelodge hotels in England for a continuous period of two weeks or more at any time after 4 July 2020. The provision of the further £30m of such funding is subject to the foregoing conditions as well as the replacement or refinancing of the Group's £60m SSRCF with a third party on terms satisfactory to the ultimate shareholders. The Group has market-tested the opportunity to refinance and there has been credible interest from reputable capital providers. As this equity commitment is not unconditionally committed, it cannot be relied upon to support the going concern assumption.

Under the revised covenant terms for the RCF, the Group's existing springing covenant requirements, which apply if drawings under the RCF are £32m or more, have lapsed immediately and have been replaced with a minimum liquidity covenant of £10m, until June 2021, after which the business returns back to the previous quarterly net leverage covenant tests from September 2021.

Cash flow forecasts

The Board has prepared cash flow forecasts under a number of scenarios for a period of 17 months from the date of approval of these financial statements to the end of 2021.

The base case scenario includes the benefits of actions already taken by management to enable the business to successfully trade through the impact of Covid-19, these involve a number of key components including: continued action to preserve cash flow with all discretionary spend halted and all non-essential capex deferred; making use of government measures where possible including furloughing more than 8,000 team members through the second quarter under the Job Retention Scheme and benefiting from the Hospitality Business Rates Relief programme; drawing down on our existing facilities; accessing new facilities and equity contributions; and the Company agreeing a Company Voluntary Arrangement ("CVA").

The base case assumes that the majority of hotels are reopened for trading during July 2020, and gradually build back towards pre-Covid-19 levels of trade, ending the year with revenue down c. 15% in December and recovering to pre-Covid-19 levels by mid-2021. Under this base case scenario, the Company is expected to continue to have reasonable levels of headroom relative to the total funding available to it and to comply with the revised banking covenants.

Under the terms of the CVA, assets were categorised according to their strategic importance and trading performance. 70 Category A assets, which accounted for approximately 45% of 2019 hotel EBITDA, will receive their full rent and are not entitled to a break clause. Landlords of Category B, C1 and C2 hotels have reduced rents for the temporary period to the end of December 2021 and have the option to exercise a break right under their leases. This break right must be exercised by 20 November 2020 in the case of the 456 Category B hotels and by 31 December 2021 in the case of 29 Category C1 and 7 Category C2 hotels. Travelodge has the benefit of a break right on the Category C2 leases from 31 December 2021. The Company can confirm that no break rights have yet been exercised for any hotel leases.

No single landlord owned assets accounting for more than 10% of the Company's hotel level EBITDA in 2019 and no individual property with break rights accounted for more than 1% of the 2019 hotel level EBITDA. There were only 24 hotels that individually accounted for more than £1m in 2019 hotel level EBITDA and all but one of these hotels were categorised as Category A.

The Company remains confident that it will be best placed to continue to provide the best option for its landlords seeking to participate in the growth of the UK budget sector. The long-term prospects for budget hotels remain strong, and prior to Covid-19 the Company delivered class leading growth and outperformance, with UK RevPAR growth ahead of its competitive set for five years in a row. Travelodge benefits from a strong brand of more than thirty years standing in the UK, a direct distribution model and minimal use of online travel agents, a high level of direct corporate sales and leading cost and capital expenditure efficiency models. There are likely to be substantial costs, uncertainties and risks involved for landlords to switch to alternative tenants, particularly if moving away from fixed income leases. The Company also now benefits from a strengthened covenant with its new funding arrangements and temporary rent reductions helping to support liquidity in the short-term, while allowing for a return to full rent payments from the end of 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

Our future performance will also be closely linked to the duration of any period of travel restrictions, the pace of recovery thereafter, and any changes in customer behaviour. The Board has also considered various other severe but plausible downside scenarios, including the possibility that the recovery of trade takes longer than assumed in the base case and the possibility that there is a second lockdown period in the next 12 months.

In these downside scenarios, the Group would only have sufficient liquidity if the equity commitment was available. If we exited the year with sales only having recovered to 50% of 2019 levels in Q4, with Q1 2021 then 25% below 2019 levels, and sales recovering to 2019 levels thereafter, if the equity commitment was available, the Group would expect to have sufficient, albeit minimal, liquidity. However, in the event of another government imposed lockdown or similar circumstance that impacts at least a majority of the number of Travelodge hotels in England in the later part of 2020 or early 2021, due to a second peak of Covid-19 infection, which occurred prior to refinancing and the additional £30m equity being injected, there would be a risk to liquidity if the conditionality in the equity commitment letter prevented the additional equity being available. In such circumstances the Group would seek to agree a waiver with the ultimate shareholders, however, the Board cannot predict with certainty how the ultimate shareholders would respond. If equity funding was not available from the ultimate shareholders, the Group would need to seek funding from other sources, however, the Board cannot predict with any certainty the availability of such funding.

Based on the above scenarios, taking account of reasonably possible changes in trading performance, the directors believe that it remains appropriate to adopt the going concern basis in preparing the consolidated financial statements. However, we are likely to continue to be subject over the next 12 months to the impact of Covid-19 and at this stage, we are unable to predict with any certainty the extent or duration of this impact on the Company.

It is therefore possible to conceive a downside scenario in which the Company would not have adequate resources to continue as a going concern for the foreseeable future. This would indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The Board emphasises that this arises solely due to the Covid-19 pandemic which is entirely outside the Company's influence or control. The Financial Statements, as drafted, do not include the adjustments that would result if the Company was unable to continue as a going concern.

Basis of Accounting

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' as issued by the Financial Reporting Council (FRC). During the year ended 31 December 2019, the Company transitioned from reporting under UK GAAP to FRS 101 and these financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The effective date of transition to FRS 101 was 1 January 2018 and details of the impact of first time adoption of FRS 101 are provided in note 28.

The Company is a wholly owned subsidiary of Full Moon Holdco 7 Limited and of its intermediate parent, Thame & London Limited. The results of the Company are included within the consolidated financial statements of Thame & London Limited, which 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.

The financial statements have been prepared under the historical cost convention modified by the revaluation of financial assets and financial liabilities held at fair value through profit and loss. The principal accounting policies adopted have been consistently applied throughout the year and are set out below.

The Company faces certain financial risks relating to credit risk, liquidity and capital structure, which are managed at Group level as disclosed in note 20 of the Thame & London Limited consolidated financial statements (which are publicly available).

IFRS 16

The Company adopted FRS 101 on 1 January 2018 and as such has applied the requirements of IFRS 16 'Leases' from 1 January 2019. The restated comparatives for 2018 reporting period reflect FRS 101 in all respects other than IFRS 16, the requirements of which having been adopted from 1 January 2019 as permitted under the specific transition provisions in that standard.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 7.02%.

IFRS 16 has had a significant impact on the presentation of the financial statements including reported EBITDA, reported profit before tax and the balance sheet treatment of leasehold obligations. IFRS 16 has materially increased the Company's recognised assets and liabilities in the Balance Sheet introducing right-of-use assets and lease liabilities calculated based on discounted future committed lease payments. It has also materially changed the presentation and timing of recognition of charges in the Income Statement.

The operating lease expense previously reported under IAS 17, typically on a straight-line basis, within EBITDA (adjusted), has been replaced by depreciation of the right-of-use asset and notional financing costs on the lease liability. This results in increased 'lease-related expenses' being charged to the Income Statement in the early years of a lease due to the front-loaded notional financing costs, significantly reducing reported Profit (Loss) Before Tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In adopting IFRS 16 an entity is permitted to follow one of two approaches: the full retrospective approach or the modified retrospective approach. This is a single choice that must be applied to all leases. The Company has chosen to adopt the modified retrospective approach, which does not require restatement of comparative periods. Instead the cumulative impact of applying IFRS 16 is accounted for as an adjustment to equity at the start of the accounting period in which it is first applied, known as the 'date of initial application'. Discount rates will be applied to future committed lease payments to calculate the lease liability and are an area of significant judgement and estimation, particularly given the term of our leases.

The associated right-of-use assets for the largest property leases were measured on a retrospective basis as if the new rules had always been applied and for the remaining property leases at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. Non-current assets (excluding deferred tax) increased by £2,276m on 1 January 2019, and lease liabilities increased by £2,470m. The net impact on retained earnings on 1 January 2019 was £(193)m after adjustments for prepayments, accruals, onerous lease provisions and deferred tax.

The adoption of IFRS 16 resulted in the following transition adjustment at 1 January 2019:

As at 31 December 2018, the Company had non-cancellable lease commitments of £4,326m.

Reconciliation of opening lease liability at 1 January 2019

	Reported as per IAS 17 £m	IFRS 16 discount adjustment £m	Reported as per IFRS 16 £m
Operating lease commitments	4,326	(2,050)	2,276
Existing finance leases	33	-	33
Lease commitments	4,359	(2,050)	2,309
Lessor only extension options ⁽¹⁾	790	(596)	194
Total lease commitments	5,149		
Discounted at 7.0% ⁽²⁾		(2,646)	
Lease liability at 1 January 2019			2,503
Comprising:			
Lease liability in respect of leases previously classified as operating leases			2,470
Lease liability in respect of leases previously classified as finance leases			33
			2,503

¹ Lessor only extension options relate to additional lease liabilities required to be recognised under IFRS 16, where a landlord has a non-rebuttable option to extend a lease.

² The discount rate of 7.0% is the weighted average, by lease, of the estimated incremental borrowing rates calculated for each individual lease at transition. The estimated incremental borrowing rate for each lease has been calculated, based on a number of factors, to approximate the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar nature to and value of the right-of-use asset, in a similar economic environment.

The balance sheet impact is further analysed as follows:

Right of use asset in respect of leases previously classified as operating leases	2,276
Lease liability in respect of leases previously classified as operating leases	(2,470)
Deferred Tax Asset	1
Adjustment for prepayments, accruals and onerous lease provisions	-
Changes to Equity	(193)

In applying IFRS 16 for the first time, the Company performed a retrospective impairment test as at 1 January 2019. The test used an incremental borrowing rate for each identifiable cash generating unit. As a result of this test, the Company recognised an impairment loss on transition of £35.7m relating to right-of-use assets. In addition, a reduction of £8.5m was made in respect of onerous leases recognised at the date of adoption (see note 22).

The Company also used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application,
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

The Company's leasing activities and how these are accounted for

The Company leases various properties, all but a few being hotel properties. Rental contracts are typically made for fixed periods of 25 years or 35 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable

- variable lease payment that are based on an index or a rate

- amounts expected to be payable by the lessee under residual value guarantees

- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and

- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability

- any lease payments made at or before the commencement date less any lease incentives received, and

- any initial direct costs

Variable lease payments

Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

Extension and termination options

a) Lessee options
Due to a property lease term typically being for 25 years or 35 years (lessee lease extension and termination options are not considered until 3 years prior to the termination date (in line with our 3 year planning process) unless commercial negotiations have commenced sooner.

b) Lessor options

Lessor only extension rights apply to a number of our properties and as required by IFRS 16 the period of the option to extend the lease is included as part of the overall lease term.

New and Amended standards that are not yet effective

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Revenue recognition

Revenue 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 discount and VAT. The Company's principal performance obligation is to provide budget hotel accommodation and other goods and services to guests. Revenue includes rooms revenue and food and beverage sales, which is recognised when the guests stay. When payment is received at the time of room booking, prior to arrival date, a liability for prepaid room purchases is recognised and held on the balance sheet. Revenue is recognised when the customer stays. A proportion of the prepaid room purchases would be non-refundable on cancellation of the room booking.

Under management agreements, the Company's performance obligation is to provide hotel management services. Base and incentive management fees are typically charged. Base management fees are typically a percentage of total hotel revenues and incentive management fees are generally based on the hotel's profitability. Both are treated as variable consideration. Base management fees are recognised as the underlying hotel revenues occur. Incentive management fees are recognised over time when it is considered highly probable that the related performance criteria will be met, provided there is no expectation of a subsequent reversal of the revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-underlying items

In order to understand the underlying performance of the business, material, non-recurring items are separately disclosed as non-underlying items in the income statement.

Leasing

Following the transition to FRS 101 on 1 January 2018, the Company has adopted the requirements of IFRS 16 'Leases' from 1 January 2019. IFRS 16 specifies how to recognise, measure, present and disclose lease arrangements and provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all major leases. The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparison information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
 - the purchaser had the ability or right to operate the asset while receiving or controlling more than an insignificant benefit from use of the asset;
 - the purchaser had the ability or right to control physical access to the asset while receiving or controlling more than an insignificant benefit from use of the asset;
 - the facts and circumstances indicated that it was remote that other parties would receive or control more than an insignificant benefit from use of the asset.

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefit from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are the most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
 - the Company has the right to operate the asset; or
 - the Company designed the asset in a way that predetermines how and for what purpose it will be used

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

As a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and less any lease incentives received. End of lease property restoration costs are excluded from the initial cost because it is not possible to estimate what they might be at the end of a typical 25 to 35 year lease term.

The right of use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset and the end of the lease term. The estimated useful lives of right-of use assets are determined on the same basis as those of plant and equipment. In addition, the right-of use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the incremental borrowing rate specific to that lease. Generally, the Company uses the incremental borrowing rate as the discount rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The lease liability is re-measured when there is a change in future lease payments arising from a change in an index or rate or when there is a lease modification. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Company has elected to recognise all its property right-of-use assets and lease liabilities. It does not separately identify short-term leases that have a lease term of 12 months or less and leases of low-value assets.

Under IAS 17

In the comparative period, as a lessee the Company classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding contingent rent. Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Company's balance sheet. Payments made under operating leases were recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

As a lessor

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. The lease classification of a sub-lease is also based on an assessment of the risks and rewards of ownership of the right-of-use-asset arising from the head lease, in particular whether or not the risks and rewards of ownership lie with the lessor.

The Company recognises lease payments received under operating leases as income on a straight line basis over the lease term as part of net rent expenses (note 5).

The accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16 except that sub-lease rental income was classified as part of 'rent', being offset against rent payable for operating leases. In the comparative period when the Company was an intermediate lessor the sub-leases were classified with reference to the underlying asset.

The key sensitivities resulting from estimates in the calculation of the IFRS 16 numbers are:

- the discount rate used
- recognising right of use assets and lease liabilities based on lease terms which extend to the first break clause only.

Foreign currencies

Transactions and balances

The presentational currency of the Company is sterling. Foreign currency transactions are translated into sterling using average exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited to other comprehensive income or to equity, in which case the deferred tax is also dealt with in other comprehensive income or in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

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.

Lease premiums (before IFRS 16)

Values attributed to lease premiums principally relate to certain legal and professional costs incurred in the process of entering into new lease arrangements at new hotel sites. These amounts are capitalised and amortised on a straight line basis over the length of each lease.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and any provision for impairment. Cost includes original purchase price of the assets and the costs attributable to bringing the asset to its working condition for its intended use.

These are depreciated on a straight line basis, over their estimated useful lives as follows:

- Freehold land is not depreciated.
- Freehold buildings are depreciated to their estimated residual values over periods up to fifty years.
- Long leasehold buildings are depreciated to their estimated residual values over fifty years or, where shorter, their remaining lease periods.
- Fixtures and fittings are depreciated over five years for plant and machinery, fixtures, fittings, equipment and over three years for information technology hardware.
- 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.

Assets under construction

Assets under construction 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.

Impairment of tangible and intangible assets

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 any 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. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of the fair value less costs to sell and value in use of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for 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 as an expense immediately.

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.

Inventory

Inventory comprises food, bar stocks and hotel consumables and are stated at the lower of cost and net realisable value. Cost is determined on a first in first out basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Derivatives are not basic financial instruments. They are initially recognised at fair value, changes in which are recognised in profit or loss unless they are included in a hedging arrangement.

The Company's activities expose it primarily to the financial risks of changes in interest rates. The Company uses interest rate swap contracts to hedge these exposures and they are designated as cash flow hedges of floating rate borrowings. The Company does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Company's policies approved by the Board of Directors, which provides written principles on the use of financial derivatives.

The fair value of the derivative financial instruments is shown as non-current if the maturity date of the hedged item is more than 12 months after the balance sheet date.

Changes in the fair value of the derivative financial instruments that are designated and effective as hedges of future cash flows are recognised in other comprehensive income and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or liability, amounts deferred in equity are recognised in the income statement in the same year in which the hedge item affects net profit or loss.

Interest hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance. See note 16 for further information about the Company's accounting for trade receivables.

Under the previous accounting policy, before the introduction of IFRS 9, trade receivables were initially measured at fair value. Appropriate allowances for estimated irrecoverable amounts were recognised in profit or loss when there was objective evidence that the asset was impaired. The allowance recognised was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. The change in accounting policy under IFRS 9 did not have a material impact on the measurement of trade receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received net of any direct issue costs.

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

Pension costs

The Company offers a defined contribution scheme to its employees by way of recommending a third party stakeholder scheme with The Scottish Widows plc and the National Employment Savings Trust (NEST). The amount charged to the income statement for this scheme in respect of pension costs and other post-retirement benefits is the contributions payable by the Company in respect of the year. Differences between Company contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Share Capital

Ordinary share capital is classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

3 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 year. 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.

Intangible assets 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 Group 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% (2018: 2.5%). The key assumptions are consistent with past experience and with external sources of information. 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.

In order to allow comparability in this year of transition following the adoption of IFRS 16, the Company has prepared this analysis on both the current statutory IFRS basis and also before the impact of IFRS 16.

The pre IFRS 16 calculations consider cash flows including the impact of rent payments, which have been discounted back at the Company's risk adjusted pre-tax weighted average cost of capital (excluding lease liabilities) of 10.5% (2018: 9.0%). When calculating the discount rate, the market-weighted average pre-tax cost of capital for the sector was used based on a portfolio of similar hotel businesses, based on the Capital Asset Pricing Model. These discounted cash flows are then compared to assets, which exclude the right of use assets created as a result of IFRS 16.

The statutory IFRS calculations, including the impact of IFRS 16, consider cash flows excluding rent payments in line with the income statement reporting for IFRS 16. In the absence of asset specific market data following the introduction of IFRS 16, the discount rate has been calculated with reference to the market-weighted average pre-tax cost of capital based on a portfolio of similar hotel businesses using the Capital Asset Pricing Model as a starting point. As permitted by the IAS 36, this is then adjusted to reflect the estimated incremental borrowing cost of leasing for each asset based on market rates at the date of the review, in line with the methodology for assessing the variation in the discount rate by asset used to calculate the discount rate which has been used to derive the lease liabilities included on the balance sheet as a result of IFRS 16. This resulted in a weighted average pre-tax discount rate of 8.3% (2018: n/a), with a range of 6.8% to 9.3% for the Company's portfolio of leases.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

4 REVENUE

Revenue of £713.2m (2018: £680.2m) represents 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. All revenue relates to the principal activity of the Company, which is the supply of hotel rooms.

5 NET OPERATING EXPENSES

	Year ended 31 December 2019			Year ended 31 December 2018
	Before IFRS 16 ⁽¹⁾ £m	IFRS 16 impact £m	Statutory £m	Statutory £m
Cost of goods sold	42.3	-	42.3	41.8
Employee costs (note 7)	170.7	-	170.7	162.5
Fees payable to the Company's auditors ²	0.2	-	0.2	0.4
Operating expenses	169.4	-	169.4	162.5
Net operating expenses before rent, depreciation and amortisation	382.6	-	382.6	367.2
Rent payable (third party landlords)	208.2	(207.9)	0.3	196.6
Rent receivable	(4.0)	-	(4.0)	(4.0)
Net external rent payable	204.2	(207.9)	(3.7)	192.6
Rent free adjustment ³	2.3	(2.3)	-	1.9
Net rent	206.5	(210.2)	(3.7)	194.5
Net operating expenses before depreciation and amortisation	589.1	(210.2)	378.9	561.7
Depreciation	44.4	115.4	159.8	41.9
Amortisation	17.5	(11.9)	5.6	16.7
Net depreciation and amortisation	61.9	103.5	165.4	58.6
Total net operating expenses (before non-underlying items)	651.0	(106.7)	544.3	620.3
Non-underlying items (note 6)	18.5	(3.7)	14.8	9.1
Total net operating expenses	669.5	(110.4)	559.1	629.4

1. Before IFRS 16 - In order to facilitate the comparability of the underlying business to the prior year following the adoption of IFRS 16 on 1 January 2019, additional columns have been added to reflect the position in line with the accounting principles applicable to the previous year, as restated for the adoption of IFRS 101 on 1 January 2018.

2. Fees payable for the audit of the Company were £0.2m (2018: £0.2m). During the year the Company also paid £nil (2018: £0.2m) on behalf of other group companies for the audit of their financial statements. Non-audit services of £nil (2018: £nil) were incurred.

3. In many of our leases we receive a rent free period at the beginning of the lease term. Before IFRS 16 the benefit of this rent free is held as an accrual on our balance sheet and is recognised in our 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. As a result, our IFRS rent expense does not reflect our cash payments of rent in any period. EBITDA (adjusted) in each period recognises the portion of the credit attributable to such period as if such credit were applied on a straight line basis until the next rent review, normally five years, which is the measure which is used for internal management reporting and external bond reporting.

4. Statutory rent payable remaining after the impact of IFRS 16 of £0.3m relates to variable lease payments not included within right of use assets (note 19).

6 NON-UNDERLYING ITEMS (BEFORE TAXATION)

	Year ended 31 December 2019			December 2018
	IFRS 16 ⁽¹⁾ £m	IFRS 16 impact £m	Statutory £m	Statutory £m
Impairment of intangible assets, property plant & equipment and right of use assets	15.0	(0.2)	14.8	6.7
Net onerous lease provision reassessment	3.5	(3.5)	-	3.1
Net lease surrender income	-	-	-	(0.7)
Total non-underlying items	18.5	(3.7)	14.8	9.1

1. Before IFRS 16 - In order to facilitate the comparability of the underlying business to the prior year following the adoption of IFRS 16 on 1 January 2019, additional columns have been added to reflect the position in line with the accounting principles applicable to the previous year, as restated for the adoption of IFRS 101 on 1 January 2018.

Non-underlying items (before taxation and the impact of IFRS 16) of £18.5m for the year ended 31 December 2019 included £15.0m for the impairment of fixed assets and a net onerous lease provision reassessment of £3.5m.

The application of IFRS 16 results in non-underlying items reducing by £3.5m, mainly due to the reversal of the net onerous lease provision reassessment as rent is no longer charged under IFRS 16, together with a £0.2m reduction to the impairment charge, given the different basis of impairment testing, bringing the total statutory impairment charge to £14.8m for the year.

In the financial year to 31 December 2018, non-underlying charges (before taxation) of £9.1m for the year ended 31 December 2018 included £6.7m for the impairment of fixed assets, £3.1m of net additional onerous lease provisions, a £0.8m charge relating to the surrender of the lease at the closed Gatwick Airport hotel and an inflow of £1.5m relating to the surrender of the lease at Cambridge Lolworth.

7 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Directors' emoluments		
Directors' emoluments	3.6	6.1
Total	3.6	6.1
Remuneration of the highest paid Director	2.0	2.8
	Number	Number
Number of Directors accruing benefits under the defined contribution scheme	-	-
	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Employee costs during the year (including Directors)		
Wages and salaries	157.8	151.4
Social security costs	8.9	8.5
Other pension costs	4.0	2.6
Total employee costs	170.7	162.5

In 2019, £0.7m of directors' emoluments (which exclude employer's national insurance) (2018: £3.6m) was in respect of incentives paid in relation to the Group refinancing and other exceptional corporate activities. These costs have been borne by another Group company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

7 INFORMATION REGARDING DIRECTORS AND EMPLOYEES (CONTINUED)

	Year ended 31 December 2019 Number	Year ended 31 December 2018 Number
Average FTE number of persons employed ¹	7,053	7,131
Total number of persons employed ²	11,637	11,635

The total number of employees at the year ended 31 December 2019 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 Company's payroll during the year.

1. Average FTE number of persons employed includes executive Directors.
2. Total number of persons employed includes executive Directors.

8 OPERATING LEASE COMMITMENTS

Following the transition to FRS 101 on 1 January 2018, the Company adopted IFRS 16 'Leases' on 1 January 2019 using the modified retrospective approach with no restatement of prior year comparatives. As such the Company leasing arrangements are accounted for in line with the new accounting policy. For the current year full details are disclosed within Note 16 (Right of use assets) and Note 19 (Lease liabilities).

Total commitments under operating leases amounted to:

	Before IFRS 16 ⁽¹⁾	
	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Due within one year	215.2	206.3
Due between two and five years	864.4	861.4
Due beyond five years	3,038.3	3,258.4
Total	4,117.9	4,326.1
	Years	Years
Average lease term remaining	16.4	17.4

(1) Before IFRS 16 - In order to facilitate the comparability of the underlying business to the prior year following the adoption of IFRS 16 on 1 January 2019, additional columns have been added to reflect the position in line with the accounting principles applicable to the prior year.

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 based on CPI), with Company only renewal rights at the end of the lease. The figures above exclude landlord options to extend leases (which are included in the lease liability under IFRS 16 in note 19).

9 FINANCE COSTS

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Cash	-	-
Finance lease interest charge	-	4.5
Accrued	-	-
Finance lease interest charge	-	0.7
Unwinding of discount on provisions	-	0.5
Interest payable to group undertakings	7.8	7.8
Interest on lease liabilities	166.3	-
Finance costs	174.1	13.5

10 FINANCE INCOME

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Bank interest receivable	0.7	1.0
Interest receivable from group undertakings	14.4	10.7
Finance income	15.1	11.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

11 INCOME TAX

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Current tax		
UK Corporation tax	-	-
Foreign tax	-	-
Total current tax (charge)	-	-
Deferred tax		
Origination and reversal of temporary timing differences	6.5	(0.7)
Adjustment in respect of previous years	(1.4)	10.2
Effect of change in tax rate	(0.7)	0.3
Total deferred tax credit (note 21)	4.4	9.8
Income tax credit	4.4	9.8

The main rate of UK corporation tax was 19%. As announced in the 2020 budget, the main rate of corporation tax will now remain at 19% rather than reducing to 17% from April 2020.

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

Current Corporation tax is calculated at 19.00% (2018: 19.00%) of the estimated assessable profit for the year.

The total charge for the year can be reconciled to the loss per the income statement as follows:

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
(Loss) / Profit before tax	(4.9)	49.0
Tax at the UK corporation tax rate of 19.00% (2018: 19.00%)	(0.9)	9.3
Effects of:		
Adjustments in respect of prior years	1.4	(10.2)
Expenses not deductible	0.1	2.3
Tax rate changes	0.7	(0.3)
Effects of group relief / other reliefs	(4.8)	(11.2)
Depreciation / impairment on non-qualifying assets	0.7	0.3
Amounts not recognised	(1.6)	-
Income tax (credit) for the year	(4.4)	(9.8)

The deferred tax charge arising in the year is comprised as follows:

	Intangible assets £m	Tax losses and hold-over relief £m	Accelerated tax depreciation £m	Total £m
(Credit) / charge due to movement in the year (note 21)	(1.2)	0.5	(3.7)	(4.4)
(Credit) / charge to income statement	(1.2)	0.5	(3.7)	(4.4)

As part of their review of the 2015, 2016 and 2017 tax returns, HMRC have requested information in relation to the group restructuring and refinancing in those years. The business has been responding to those information requests.

12 INVESTMENTS

	Ordinary shares in subsidiaries £m
Balance at 31 December 2018 and 31 December 2019	-

Investments held as fixed assets at 31 December 2019 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-Ijzun, Qormi QRM3800, Malta	Holding company	Malta	100.0
FullMoonPropco1 Limited*	Sleepy Hollow, Aylesbury Road, Thame, Oxon, OX9 3AT	Trading company	Great Britain	100.0

* Denotes direct investment

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

13 INTANGIBLE ASSETS

An analysis of intangible assets for the year ended 31 December 2019 is given below:

					Comparable to 2018 Reported Results
	Goodwill £m	Assets under construction ⁽¹⁾ £m	Lease premiums ⁽²⁾ £m	IT Software ⁽³⁾ £m	Memo 'Before IFRS 16' Total ⁽⁴⁾ £m
Cost					
At 1 January 2019	3.9	3.9	318.3	16.1	342.2
Impact of adoption of IFRS 16 ⁽²⁾	-	-	(318.3)	-	-
Restated at 1 January 2019	3.9	3.9	-	16.1	342.2
Capital expenditure	-	9.0	-	-	9.0
Movement on capital creditors	-	-	-	(0.4)	(0.4)
Transfers between categories	-	(7.3)	-	5.3	(2.0)
Write off fully depreciated assets	-	-	-	(7.5)	(7.5)
At 31 December 2019	3.9	5.6	-	13.5	341.3
Accumulated amortisation					
At 1 January 2019	-	-	(111.5)	(6.3)	(117.8)
Impact of adoption of IFRS 16 ⁽⁴⁾	-	-	111.5	-	111.5
Restated at 1 January 2019	-	-	-	(6.3)	(117.8)
Charge for the year	-	-	-	(5.6)	(17.5)
Write off fully depreciated assets	-	-	-	7.5	7.5
Impairment	-	-	-	-	(9.3)
At 31 December 2019	-	-	-	(4.4)	(137.1)
Carrying amount at 31 December 2019	3.9	5.6	-	9.1	204.2
Carrying amount at 31 December 2018	3.9	3.9	206.8	9.8	224.4

An analysis of intangible assets for the year ended Year ended 31 December 2018 is given below:

					2018 Reported Results
	Goodwill £m	Assets under construction ⁽¹⁾ £m	Lease premiums ⁽²⁾ £m	IT Software ⁽³⁾ £m	Statutory Total £m
Cost					
At 1 January 2018	3.9	4.5	317.0	13.9	339.3
Capital expenditure	-	6.2	-	-	6.2
Movement on capital creditors	-	-	0.4	(0.2)	0.2
Transfers	-	(6.8)	1.4	5.4	-
Write off fully depreciated assets	-	-	(0.2)	(3.0)	(3.2)
Disposals	-	-	(0.3)	-	(0.3)
At 31 December 2018	3.9	3.9	318.3	16.1	342.2
Accumulated amortisation					
At 1 January 2018	-	-	(95.5)	(4.8)	(100.3)
Charge for the year	-	-	(12.2)	(4.5)	(16.7)
Write off fully depreciated assets	-	-	0.2	3.0	3.2
Disposals	-	-	0.3	-	0.3
Impairment	-	-	(4.3)	-	(4.3)
At 31 December 2018	-	-	(111.5)	(6.3)	(117.8)
Carrying amount at 31 December 2018	3.9	3.9	206.8	9.8	224.4
Carrying amount at 31 December 2017	3.9	4.5	221.5	9.1	239.0

1. Assets under construction predominantly consists of costs in relation to the construction of new hotels which have not opened yet and investment in IT. Once complete the costs are transferred to the appropriate asset category.

2. Lease premiums are amortised on a straight line basis over the lease period. The impact of adoption of IFRS 16 consists of the reclassification of leasehold premium intangible assets of net book value £206.8m to Right of Use assets at the transition date. Before the impact of IFRS 16, an impairment of £9.3m was made in 2019 (2018: £4.4m). Under IFRS 16 the £9.3m impairment on leasehold premiums is reallocated to Right of Use Assets, together with additions of £1.8m and amortisation of £11.9m in 2019.

3. IT software is measured initially at purchase cost and is amortised on a straight line basis over three years.

4. Before IFRS 16 - In order to facilitate the comparability of the underlying business to the prior year following the adoption of IFRS 16 on 1 January 2019, additional columns have been added to reflect the position in line with the accounting principles applicable to the previous year.

Each hotel to which a lease premium asset is assigned is considered to be a separate cash generating unit when assessing impairment.

In line with its accounting policy, the Company assesses the carrying value of all cash generating units, which would include individual hotels, where there are indications of potential impairment. Impairment reviews are performed annually at the Company's year end of 31 December.

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% (2018: 2.5%). The key assumptions are consistent with past experience and with external sources of information. 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.

In order to allow comparability in this year of transition following the adoption of IFRS 16, the Company has prepared this analysis on both the current statutory IFRS basis and also before the impact of IFRS 16. The pre IFRS 16 calculations consider cash flows including the impact of rent payments, which have been discounted back at the Company's risk adjusted pre-tax weighted average cost of capital (excluding lease liabilities) of 10.5% (2018: 9.0%). When calculating the discount rate, the market-weighted average pre-tax cost of capital for the sector was used based on a portfolio of similar hotel businesses, based on the Capital Asset Pricing Model. These discounted cash flows are then compared to assets, which exclude the right of use assets created as a result of IFRS 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

14 PROPERTY, PLANT AND EQUIPMENT

An analysis of property, plant and equipment for the year ended 31 December 2019 is given below:

					Comparable to 2018 Reported Results	
	Assets under construction ⁽¹⁾	Freehold land, freehold and long leasehold buildings ⁽²⁾	Assets held under finance leases ⁽³⁾	Fixtures and fittings ⁽⁴⁾	Statutory Total	Memo 'Before IFRS 16' Total ⁽⁵⁾
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2019	1.4	2.5	21.4	215.7	241.0	241.0
Impact of adoption of IFRS 16 ⁽³⁾	-	-	(21.4)	-	(21.4)	-
Restated At 1 January 2019	1.4	2.5	-	215.7	219.6	241.0
Capital expenditure	56.8	-	-	-	56.8	56.8
Movement on capital creditors	-	-	-	(2.2)	(2.2)	(2.2)
Reclassification	(55.2)	-	-	55.2	-	-
Write-down of fully depreciated assets	-	-	-	(44.9)	(44.9)	(44.9)
Disposals	-	-	-	(0.2)	(0.2)	(0.2)
At 31 December 2019	3.0	2.5	-	223.6	229.1	250.5
Accumulated depreciation						
At 1 January 2019	-	(0.9)	(5.8)	(94.5)	(101.2)	(101.2)
Impact of adoption of IFRS 16 ⁽³⁾	-	-	5.8	(1.4)	4.4	-
Restated At 1 January 2019	-	(0.9)	-	(95.9)	(96.8)	(101.2)
Charge for the year	-	-	-	(44.0)	(44.0)	(44.4)
Write-back of depreciation on fully depreciated assets	-	-	-	44.9	44.9	44.9
Impairment ⁽²⁾	-	-	-	(0.7)	(0.7)	(5.7)
At 31 December 2019	-	(0.9)	-	(95.7)	(96.6)	(106.4)
Carrying amount at 31 December 2019	3.0	1.6	-	127.9	132.5	144.1
Carrying amount at 31 December 2018	1.4	1.6	15.6	121.2	139.8	139.8

An analysis of property, plant and equipment for the year ended 31 December 2018 is given below:

					2018 reported results	
	Assets under construction ⁽¹⁾	Freehold land, freehold and long leasehold buildings ⁽²⁾	Assets held under finance leases ⁽³⁾	Fixtures and fittings ⁽⁴⁾	Statutory Total	
	£m	£m	£m	£m	£m	
Cost						
At 1 January 2018	3.6	2.5	21.4	196.0	223.5	
Additions	52.5	-	-	-	52.5	
Movement on capital creditors	-	-	-	(0.3)	(0.3)	
Transfers	(54.7)	-	-	54.7	-	
Write-down of fully depreciated assets	-	-	-	(34.5)	(34.5)	
Disposals	-	-	-	(0.2)	(0.2)	
At 31 December 2018	1.4	2.5	21.4	215.7	241.0	
Accumulated depreciation						
At 1 January 2018	-	(0.9)	(5.4)	(85.3)	(91.6)	
Charge for the year	-	-	-	(41.5)	(41.5)	
Write-back of depreciation on fully depreciated assets	-	-	(0.4)	34.5	34.1	
Disposals	-	-	-	0.2	0.2	
Impairment	-	-	-	(2.4)	(2.4)	
At 31 December 2018	-	(0.9)	(5.8)	(94.5)	(101.2)	
Carrying amount at 31 December 2018	1.4	1.6	15.6	121.2	139.8	
Carrying amount at 31 December 2017	3.6	1.6	16.0	110.7	131.9	

1. Assets under construction predominantly consists of on-going maintenance and refits, including SuperRooms and Travelodge Plus. Once complete the costs are transferred to the appropriate asset category.

2. Freehold, freehold and long leasehold buildings includes freehold land stated at cost of £20,100 (2018: £20,100) which is not depreciated. Freehold land and long leasehold properties are stated at cost. Depreciation is provided on cost in equal annual instalments over the estimated remaining useful lives of the assets.

3. Before the adoption of IFRS 16 on 1 January 2019, assets held under finance leases were depreciated over their useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. The impact of the adoption of IFRS 16 consists of the transfer of £15.6m from Property, Plant & Equipment to Right of Use assets, representing the net book value of assets previously classified as finance lease assets. There was also an additional £1.4m impairment to fixtures and fittings on transition.

4. Fixtures and fittings are initially measured at cost and are depreciated over three to five years.

5. 'Before IFRS 16' an impairment of £5.7m was made in 2019 (2018: £2.3m). IFRS 16 reduces the 2019 impairment of fixtures and fittings by £5.0m and reallocates it to Right of Use Assets, leaving a statutory 2019 impairment of property, plant and equipment of £0.7m.

6. Before IFRS 16 - In order to facilitate the comparability of the underlying business to the prior year following the adoption of IFRS 16 on 1 January 2019, additional columns have been added to reflect the position in line with the accounting principles applicable to the previous year.

In line with its accounting policy, the Company assesses the carrying value of all cash generating units, which would include individual hotels, where there are indications of potential impairment. Impairment reviews are performed annually at the Company's year end of 31 December.

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% (2018: 2.5%). The key assumptions are consistent with past experience and with external sources of information. 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.

In order to allow comparability in this year of transition following the adoption of IFRS 16, the Company has prepared this analysis on both the current statutory IFRS basis and also before the impact of IFRS 16.

Before IFRS 16

The pre IFRS 16 calculations consider cash flows including the impact of rent payments, which have been discounted back at the Company's risk adjusted pre-tax weighted average cost of capital (excluding lease liabilities) of 10.5% (2018: 9.0%). When calculating the discount rate, the market-weighted average pre-tax cost of capital for the sector was used based on a portfolio of similar hotel businesses, based on the Capital Asset Pricing Model. These discounted cash flows are then compared to assets, which exclude the right of use assets created as a result of IFRS 16.

Statutory

The statutory IFRS calculations, including the impact of IFRS 16, consider cash flows excluding rent payments in line with the income statement reporting for IFRS 16. In the absence of asset specific market data following the introduction of IFRS 16, the discount rate has been calculated with reference to the market-weighted average pre-tax cost of capital based on a portfolio of similar hotel businesses using the Capital Asset Pricing Model as a starting point. As permitted by IAS 36, this is then adjusted to reflect the estimated incremental borrowing cost of leasing for each asset based on market rates at the date of the review, in line with the methodology for assessing the variation in the discount rate by asset used to calculate the discount rate which has been used to derive the lease liabilities included on the balance sheet as a result of IFRS 16. This resulted in a weighted average pre-tax discount rate of 8.3% (2018: n/a), with a range of 6.8% to 9.3% for the Company's portfolio of leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

15 RIGHT OF USE ASSETS

The Company operates all of its hotels under long term leases. The IFRS 16, 'Leases' accounting standard was adopted on 1 January 2019 and requires recognition of both a Right of Use asset and a Lease Liability arising from those long-term leasing arrangements. In addition to the recognition of Right of Use assets at the date of adoption, a number of transfers were made from other classifications within the Statement of Financial Position, further details of which are given below.

Adoption of IFRS 16

New Right of Use Assets on adoption	
Impairment on adoption ⁽¹⁾	
Transfer from Property, Plant and Equipment ⁽¹⁾	
Transfer from Intangible Assets ⁽²⁾	
Transfer from Provisions ⁽³⁾	

Property £m	Total £m
2,321.6	2,321.6
(35.7)	(35.7)
15.6	15.6
206.8	206.8
(8.5)	(8.5)
2,499.8	2,499.8

⁽¹⁾ Transfers from Property, Plant and Equipment of £15.6m represents the net book value of assets previously classified as finance lease assets.

⁽²⁾ Transfers from Intangible Assets of £206.8m represent the net book value of assets previously classified as lease premiums.

⁽³⁾ £8.5m of transfers from Provisions being onerous lease provisions held in respect of leases at the date of transition.

⁽⁴⁾ In applying IFRS 16 for the first time, the Company performed a retrospective impairment test as at 1 January 2019. The test used an incremental borrowing rate for each identifiable cash generating unit. As a result of this test, the Company recognised an impairment loss on transition of £35.7m relating to right of use assets.

In line with its accounting policy, the Company assesses the carrying value of all cash generating units, which would include individual hotels, where there are indications of potential impairment. Impairment reviews are performed annually at the Company's year end of 31 December.

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% (2018: 2.5%). The key assumptions are consistent with past experience and with external sources of information. 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 statutory IFRS calculations, including the impact of IFRS 16, consider cash flows excluding rent payments in line with the income statement reporting for IFRS 16. In the absence of asset specific market data following the introduction of IFRS 16, the discount rate has been calculated with reference to the market-weighted average pre-tax cost of capital based on a portfolio of similar hotel businesses using the Capital Asset Pricing Model as a starting point. As permitted by IAS 36, this is then adjusted to reflect the estimated incremental borrowing cost of leasing for each asset based on market rates at the date of the review, in line with the methodology for assessing the variation in the discount rate by asset used to calculate the discount rate which has been used to derive the lease liabilities included on the balance sheet as a result of IFRS 16. This resulted in a weighted average pre-tax discount rate of 8.3% (2018: n/a), with a range of 6.8% to 9.3% for the Company's lease portfolio.

An analysis of Right of use assets for the year ended 31 December 2019 is given below:

Cost

Impact of Adoption of IFRS 16 on 1 January 2019 ⁽¹⁾	
New leases	
Movement on capital creditors ⁽²⁾	
Transfers ⁽³⁾	
Rent reviews and adjustments	
Foreign exchange translation adjustments	
At 31 December 2019	

Property £m	Total £m
2,970.3	2,970.3
64.1	64.1
(0.2)	
2.0	2.0
52.5	52.5
-	-
3,088.7	3,088.9

Accumulated depreciation

Adoption of IFRS 16 on 1 January 2019	
Impairment on adoption	
Impact of Adoption of IFRS 16 on 1 January 2019 ⁽¹⁾	
Depreciation	
Impairment ⁽⁴⁾	
At 31 December 2019	

(434.8)	(434.8)
(35.7)	(35.7)
(470.5)	(470.5)
(115.8)	(115.8)
(14.1)	(14.1)
(600.4)	(600.4)

Carrying amount at 31 December 2019

2,488.3 **2,488.5**

Carrying amount at 31 December 2018

- -

⁽¹⁾ The impact of the adoption of IFRS 16 included the transfers from Property, Plant and Equipment of £15.6m represents the net book value of assets previously classified as finance lease assets, transfers from Intangible Assets of £206.8m represent the net book value of assets previously classified as lease premiums, £8.5m of transfers from Provisions being onerous lease provisions held in respect of leases at the date of transition and an additional £35.7m impairment to Right of Use assets at transition date.

⁽²⁾ Movement on capital creditors relate to leasehold premiums.

⁽³⁾ Transfers relate to leasehold premiums reclassified from assets under construction within intangible assets.

⁽⁴⁾ The impact of the adoption of IFRS 16 on impairments was the reclassification of 'before IFRS 16' impairments of £5.0m from Property, Plant and equipment and £9.3m from Intangible assets to Right of Use assets under IFRS 16 and a £0.2m reduction to the overall impairment charge given the different basis of impairment testing, bringing the overall Right of Use asset impairment to £14.1m.

As permitted by IFRS 16, the Company has elected not to recognise Right of use assets in respect of short term or low value leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

16 INTERCOMPANY RECEIVABLES AND PAYABLES

Intercompany receivables

As part of the funding of the Travelodge Group, the Company makes loans to other Group companies which are used by these companies to settle other bank and bond interest obligations. Amounts owed by Group undertakings relate to these outstanding balances and associated interest charges owing from those companies. The amounts are unsecured and repayable on demand. An interest rate of 0 - 10% (2018: 0 - 10%) is charged on balances between Group undertakings.

Intercompany payables

As part of the funding of the Travelodge Group, the Company has received loans from other Group companies resulting from the drawdown on certain bank and bond facilities. Amounts payable to Group undertakings relate to these outstanding balances and associated interest charges owing to those companies. The amounts are unsecured and repayable on demand. An interest rate of 0 - 10% (2018: 0 - 10%) is charged on balances between Group undertakings.

An analysis of intercompany receivables and payables is presented below:

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Intercompany receivables	296.7	245.9
Intercompany payables	(168.5)	(160.4)

17 TRADE AND OTHER RECEIVABLES

	Year ended 31 December 2019			Year ended 31 December 2018
	Before IFRS 16 £m	IFRS 16 impact £m	Statutory £m	Statutory £m
Amounts due within one year:				
Trade amounts receivable				
- Gross amounts receivable	6.5	-	6.5	7.5
- Bad debt provision	(0.2)	-	(0.2)	(0.4)
- Net amounts receivable	6.3	-	6.3	7.1
Other amounts receivable	2.6	-	2.6	1.8
Corporation tax	-	-	-	-
Accrued income ²	2.4	-	2.4	1.9
Prepayments ¹	41.0	(36.6)	4.4	35.9
	52.3	(36.6)	15.7	46.7

1. Prepayments mainly include prepayments of rent and rates.

2. Accrued income is made up of £1.6m accrued supplier rebates and £0.8m of accrued income.

Management have estimated the fair value of trade and other receivables to be equal to the book value.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The Company estimates expected credit losses based on historical experience. The transition from IAS 39 to IFRS 9 has had no material impact on the expected loss allowance or its movements in the year. Receivables that are neither past due or impaired are considered to be fully recoverable. Trade receivables are all considered stage 2, except for £0.1m (2018: £0.1m) of stage 3 assets. Enil (2018: £0.2m) was recognised in the profit and loss in the year in respect of bad debts written off or provided for.

Trade Receivable Ageing

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Current	5.2	6.0
Past due		
30 days	0.1	0.4
60 days	0.1	0.3
90+ days	1.1	0.8
Total	6.5	7.5

18 TRADE AND OTHER PAYABLES

	Year ended 31 December 2019			Year ended 31 December 2018
	Before IFRS 16 £m	IFRS 16 impact £m	Statutory £m	Statutory £m
Trade payables	(10.8)	-	(10.8)	(12.5)
Other payables	(2.8)	-	(2.8)	(2.2)
Social security and other taxation	(7.5)	-	(7.5)	(14.0)
Accruals ¹	(60.0)	4.2	(55.8)	(58.8)
Deferred income	(1.5)	-	(1.5)	(0.8)
Contract liabilities - Prepaid room purchases ²	(27.5)	-	(27.5)	(28.1)
Capital payables	(5.9)	-	(5.9)	(8.7)
Amounts falling due within one year	(116.0)	4.2	(111.8)	(125.1)
Amounts falling due after one year				
Accruals ¹	(17.8)	17.8	-	(15.3)
Total	(133.8)	22.0	(111.8)	(140.4)

1. Certain hotel leases include a rent-free period at the beginning of the lease term. Before IFRS 16, 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.

2. Prepaid room purchases of £27.5m (2018: £28.1m) relate to cash received at the time of room booking prior to arrival date and is recognised when customers stay, of which 45% (2018: 47%) would be non-refundable on cancellation of the room booking. Customer stays are within 1 year of the booking date so contract liabilities at the start of the period are recognised within revenue in the year.

The Company pays its trade payables in line with the terms that it has agreed with its suppliers. Typically these terms vary from 30 days to 90 days.

Management have estimated the fair value of trade and other payables to be equal to the book value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

19 LEASE LIABILITIES

The Company operates all 572 of its hotels under long term leases. Following the transition to FRS 101 on 1 January 2018, the Company adopted IFRS 16, 'Leases' on 1 January 2019. IFRS 16 requires recognition of both a Right of Use asset and a Lease Liability arising from those long-term leasing arrangements. In addition to the recognition of Lease Liabilities at the date of adoption, liabilities relating to finance lease creditors have been reclassified to lease liabilities.

Adoption of IFRS 16

New Lease Liabilities on adoption
Transfer from Finance Lease Creditors

Property £m	Total £m
(2,470.1)	(2,470.1)
(32.8)	(32.8)
(2,502.9)	(2,502.9)

An analysis of Lease Liabilities for the year ended is given below:

Balance at 1 January

Adoption of IFRS 16

New leases
Rent reviews and adjustments
Finance costs
Payments - Finance Leases
Payments - Operating Leases
At 31 December 2019

Property £m	Total £m
(2,502.9)	(2,502.9)
(64.1)	(64.1)
(52.5)	(52.5)
(166.3)	(166.3)
4.5	4.5
219.6	219.6
(2,561.7)	(2,561.7)
(45.8)	(45.8)
(2,515.9)	(2,515.9)
(2,561.7)	(2,561.7)

Amounts falling due within one year
Amounts falling due after one year

Contractual undiscounted lease payments - maturity analysis

Within one year
Greater than one year but less than five years
Greater than five years but less than ten years
Greater than ten years but less than fifteen years
Greater than fifteen years

Total undiscounted lease payments at 31 December 2019

Property £m	Total £m
212.3	212.3
885.6	885.6
1,107.5	1,107.5
1,080.4	1,080.4
1,868.8	1,868.8
5,154.6	5,154.6

Lease liabilities are based on discounted future committed lease payments and therefore do not include the impact of variable lease components, short-term and low value leases. Further information regarding these payments is provided below. The weighted average discount rate applied to future lease payments used to establish lease liabilities is 7.10% with a weighted average remaining lease length of 23.1 years.

As permitted under IFRS 16, the Company has elected not to recognise Right of Use Assets or Lease Liabilities for either short term or low value leases. Details of operating lease payments made in the year and charged to the Income Statement are given below:

Lease payments charged / (credited) to Income Statement

Variable lease payments not included within right of use assets
Income from subleasing right of use assets

Property £m	Total £m
0.3	0.3
(4.0)	(4.0)
(3.7)	(3.7)

20 FINANCIAL ASSETS AND LIABILITIES**Financial instrument categories**

Cash and cash equivalents

Loans and receivables⁽¹⁾

Financial liabilities⁽²⁾

Net funding including finance leases

Year ended 31 December 2019			Year ended 31 December 2018
Before IFRS 16 £m	IFRS 16 impact £m	Statutory £m	Statutory £m
83.1	-	83.1	81.8
308.0	-	308.0	256.7
(316.8)	(2,496.4)	(2,813.2)	(307.2)
74.3	(2,496.4)	(2,422.1)	31.3

1. Loans and receivables of £308.0m (2018: £256.7m) are made up of intercompany receivables of £296.7m (2018: £245.9m), trade receivables £6.3m (2018: £7.1m), other receivables of £2.6m (2018: £1.8m) and accrued income of £2.4m (2018: £1.9m).

2. Financial liabilities of £2,813.2m (2018: £307.2m) are made up of lease liabilities of £2,561.7m (2018: finance lease creditor of £32.8m), intercompany payables of £168.5m (2018: £160.4m), provisions of £7.7m (2018: £16.5m), trade payables of £10.8m (2018: £12.5m), capital payables of £5.9m (2018: £8.7m), accruals of £55.8m (2018: £74.1m) and other payables of £2.8m (2018: £2.2m).

The IFRS 16 impact represents the fact that operating lease commitments and finance lease commitments and finance lease creditors have been replaced by the lease liabilities from 1 January 2019. The lease liabilities represent the present value of future lease payments in respect of the right of use assets.

The Company has taken advantage of the reduced disclosures allowed by paragraph 8 (d) of FRS 101 and has not included disclosures otherwise required under IFRS 7 in these financial statements. Equivalent disclosures for the Group can be found in note 20 of the consolidated financial statements of Thame & London Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

21 DEFERRED TAX

The following are the major deferred tax (liabilities) and assets recognised by the Company which are expected to be recovered or settled more than twelve months after the reporting period and movements thereon during the current and prior reporting year.

	Tax losses and hold-over relief £m	Accelerated tax depreciation £m	Deferred tax asset £m	Intangible assets £m	Deferred tax liability £m	Total £m
At 1 January 2019	0.5	22.0	22.5	(21.2)	(21.2)	1.3
Impact of Adoption of IFRS 16 on 1 January 2019	-	0.7	0.7	-	-	0.7
Restated at 1 January 2019	0.5	22.7	23.2	(21.2)	(21.2)	2.0
(Charge)/credit to income	(0.5)	3.7	3.2	1.2	1.2	4.4
At 31 December 2019	-	26.4	26.4	(20.0)	(20.0)	6.4

The main rate of UK corporation tax was 19%. In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to increase the tax credit for the period by £0.8m and to increase the deferred tax asset by £0.8m.

22 PROVISIONS

	Year ended 31 December 2019		Year ended 31 December 2018	
	Before IFRS 16 £m	IFRS 16 impact £m	Statutory £m	Statutory £m
At 1 January	(16.5)	-	(16.5)	(18.9)
Impact of adoption of IFRS 16	-	8.5	8.5	-
Restated balance at 1 January	(16.5)	8.5	(8.0)	(18.9)
Cash spend	3.0	(2.7)	0.3	9.3
Reassessment in provisions	(3.5)	3.5	-	(3.1)
Unwinding of discount of provisions	(0.4)	0.4	-	(0.5)
Transfer from accruals	-	-	-	(3.3)
At 31 December	(17.4)	9.7	(7.7)	(16.5)

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
The balance can be analysed as:		
Due in less than one year	(0.1)	(1.7)
Due in greater than one year	(7.6)	(14.8)
	(7.7)	(16.5)

A 'before IFRS 16' discount rate of 4.0% (2018: 4.0%) being the pre-tax risk free rate adjusted for property risk is used to calculate the net present value of the provisions.

Before IFRS 16' Provisions of £17.4m (2018: £16.5m) can be analysed as: onerous lease provisions of £1.7m relating to future rent and rates liabilities on sub-leased historic restaurant units, £9.4m relating to fifteen UK hotels where it is considered improbable that trading profits will be generated within a period of 7 years and £6.3m 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 Company. These provisions have an average lease term of 15 years and have been discounted at a pre-tax risk free rate of 4.0% (2018: 4.0%).

Following the transition to FRS 101 on 1 January 2018 and the subsequent adoption of IFRS 16 on 1 January 2019, provisions in respect of onerous leases of £8.5m were reflected as a reduction to the Right of use assets at the transition date. Any subsequent payments in respect of these leases reduce the IFRS 16 lease liability.

23 POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, and in context of the unprecedented challenges presented by Covid-19, Travelodge has developed a recovery plan intended to provide stability and certainty for our guests, support the more than ten thousand jobs at stake and protect the interests of our key stakeholders. The recovery plan involves a number of key components to enable the business to successfully trade through the impact of Covid-19, including: continued action by the company to preserve cash flow; making use of government measures where possible; drawing down on our existing facilities; accessing new facilities and equity contributions; and Travelodge Hotels Limited ("the Company") agreeing a Company Voluntary Arrangement ("CVA").

Travelodge has made use of government support including:

- the Coronavirus Job Retention Scheme, allowing the Group to furlough more than 8,000 staff;
- the deferral of VAT payments due between March and June 2020, to 31 March 2021;
- the deferral of certain PAYE and NI amounts due to HMRC under a 'Time to Pay' arrangement; and
- the 12 month Business Rates holiday under the Expanded Retail Discount Scheme.

The Company fully drew down on its existing and previously undrawn £40m RCF facility on 17 March 2020 as well as utilising a further £9.5m of the letter of credit facility on 1 April 2020.

The Revolving Credit Facility has also been amended (i) to provide the Parent and its subsidiaries with a financial covenant holiday for the relevant periods ending 30 June 2020 until and including 30 June 2021 and (ii) to require the Parent to ensure that available liquidity is not lower than £10,000,000 for any period of five (5) consecutive business days and provide monthly consolidated cashflow forecasts for the Travelodge Group; (b) to provide that no Restricted Payments (as defined in the Revolving Credit Facility Agreement) shall be permitted to be made under the general basket for Restricted Payments until 30 June 2021; and (c) to provide that a company voluntary arrangement under Part 1 of the Insolvency Act 1986 ("CVA") shall not constitute a default or event of default under the Revolving Credit Facility Agreement.

The Group subsequently entered into a new £60m Super Senior RCF ("SSRCF") on 20 April 2020, which was provided by certain of the Company's indirect shareholders or affiliates thereof. £30m of this facility was drawn down on 22 June 2020 following the satisfaction of certain conditions precedent, including the requirement to obtain a satisfactory rent payment agreement with landlords.

In addition, pursuant to an equity commitment letter dated 3 June 2020, certain of the Company's indirect shareholders entered into commitments to make equity contributions of up to the aggregate principal amount of £40m. The provision of £10m of such funding pursuant to the equity commitment letter is subject to certain conditions, including (i) the successful approval of the CVA (ii) expiry of the 28-day challenge period and/or if a challenge is made, the dispensation of such challenge and (iii) a material adverse effect condition, defined in customary terms, but including the provision for a government imposed lockdown in circumstances where the lockdown impacts at least a majority in number of Travelodge hotels in England, for a continuous period of two weeks or more, at any time after 4 July 2020. The provision of the further £30m of such funding is subject to the foregoing conditions as well as the replacement or refinancing of the Group's £60m SSRCF with a third party on terms satisfactory to the shareholders.

The indirect shareholders of the Company have undertaken not to seek cash payments or distributions from the Group during the CVA Rent Concession Period, either under the terms of their equity arrangements or the SSRCF. For the avoidance of doubt, this undertaking will not apply to distributions in certain limited circumstances, including the proceeds of a whole or partial sale of the business or equity, or a refinancing of the SSRCF. This undertaking will terminate on the termination of the CVA, the insolvency of the Company, or a breach of the terms of the SSRCF.

Following extensive discussions with landlords regarding rent payments, the Company concluded that a CVA was necessary to provide a framework for the required temporary rent reductions. The Company sought and received consent from the holders of the Notes and the RCF lenders to launch a CVA. The CVA proposal was issued on 3 June 2020 and approved at the creditor meeting on 19 June 2020. The challenge period for the company voluntary arrangement has now ended and the Company can confirm that there are no challenges outstanding. As a result the CVA is fully binding and the Company has already made the first rent payments to landlords required under its terms.

Under the terms of the CVA, the company will benefit from a reduction in cash rent of c. £144m to the end of 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

24 SHARE CAPITAL

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Issued and fully paid: 300 million (2018: 300 million) ordinary shares of £1 each	300.0	300.0

25 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 and as such relates entirely to property, plant and equipment. At 31 December 2019 the capital commitment not provided for in the financial statements, subject to satisfactory practical completion, was £6.1m (2018: £5.5m).

26 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 2019 the estimated annual contingent rental liability was £61k (2018: £61k), represented by 5 units (2018: 5 units) with an average annual rental cost per unit of £12k (2018: £12k) and an average lease term remaining of 35 years (2018: 36 years).

27 RELATED PARTY TRANSACTIONS AND ULTIMATE CONTROLLING PARTY

At 31 December 2019, the Directors regard Anchor Holdings SCA as the ultimate parent undertaking and controlling party, a company incorporated in Luxembourg.

Thame and London Limited is the parent undertaking of the largest and smallest Group of undertakings to consolidate these financial statements at 31 December 2019. The consolidated financial statements of Thame and London Limited are available from Sleepy Hollow, Aylesbury Road, Thame, Oxfordshire, OX9 3AT.

The Company has taken advantage of the reduced disclosures allowed by paragraph 8 (k) of FRS 101 and has not presented details of transactions with related parties. Full details of related party transactions within the Group can be found in note 27 of the consolidated financial statements of Thame & London Limited.

28 TRANSITION TO FRS 101

The Company adopted FRS101 (Financial Reporting Standard 101) issued by the Financial Reporting Council during the year, with an effective date of adoption of 1 January 2018. The last financial statements prepared under UK GAAP (Financial Reporting Standard 102) were for the year ended 31 December 2018.

The impact of FRS 101 adoption on both the balance sheet and income statement is shown below:

Statement of Financial Position at 31 December 2018

	As reported £m	Transition to FRS 101 £m	Restated £m
NON CURRENT ASSETS			
Intangible assets	13.3	211.1	224.4
Property, plant and equipment	350.6	(210.8)	139.8
Deferred tax asset	22.5	-	22.5
	<u>386.4</u>	<u>0.3</u>	<u>386.7</u>
CURRENT ASSETS			
Inventory	1.1	-	1.1
Intercompany receivables	245.9	-	245.9
Trade and other receivables	46.7	-	46.7
Cash and cash equivalents	77.1	-	77.1
	<u>370.8</u>	<u>-</u>	<u>370.8</u>
TOTAL ASSETS	<u>757.2</u>	<u>0.3</u>	<u>757.5</u>
CURRENT LIABILITIES			
Intercompany payables	(160.4)	-	(160.4)
Trade and other payables	(125.1)	-	(125.1)
Lease liabilities	-	-	-
Deferred tax liability	(1.6)	-	(1.6)
Provisions	(1.7)	-	(1.7)
	<u>(288.8)</u>	<u>-</u>	<u>(288.8)</u>
NON-CURRENT LIABILITIES			
Obligations under finance leases	(32.8)	-	(32.8)
Deferred tax liability	(19.6)	-	(19.6)
Accruals	(26.1)	10.8	(15.3)
Provisions	(14.8)	-	(14.8)
	<u>(93.3)</u>	<u>10.8</u>	<u>(82.5)</u>
TOTAL LIABILITIES	<u>(382.1)</u>	<u>10.8</u>	<u>(371.3)</u>
NET ASSETS	<u>375.1</u>	<u>11.1</u>	<u>386.2</u>
EQUITY			
Share capital	300.0	-	300.0
Revaluation reserve	107.4	(107.4)	-
(Accumulated losses) / Retained earnings	(32.3)	118.5	86.2
TOTAL EQUITY	<u>375.1</u>	<u>11.1</u>	<u>386.2</u>

Transitional adjustments in respect of Non-Current Assets relate to a £0.3m reversal of the goodwill amortisation charge for the year ended 31st December 2018. Under IFRS 1 no adjustment is made to the carrying value of goodwill at the date of adoption. Lease premiums of £210.8m previously classified withing tangible fixed assets under FRS 102 have been reclassified to Intangible assets.

The adjustment in respect of trade and other payables of £10.8m relates to the different accounting treatment of rent free periods under FRS 102 compared to a fully retrospective application of FRS 101.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

28 TRANSITION TO FRS 101 (CONTINUED)

Income Statement for the year ended 31 December 2018

	As reported £m	Transition to FRS 101 £m	Restated £m
Revenue	680.2	-	680.2
Operating Expenses	(367.2)	-	(367.2)
Rent	(196.4)	(0.5)	(196.9)
Other income	-	-	-
EBITDA	116.6	(0.5)	116.1
Depreciation / Amortisation	(65.6)	0.3	(65.3)
Operating Profit / (Loss)	51.0	(0.2)	50.8
Finance Costs	(13.5)	-	(13.5)
Finance Income	11.7	-	11.7
Profit / (Loss) before Tax	49.2	(0.2)	49.0
Income Tax	9.8	-	9.8
Profit / (Loss) for the Year	59.0	(0.2)	58.8

Transitional adjustments in respect of Rent relate to a £0.5m reversal relating to the timing of recognition of rent-free credits. The adjustment in respect of Depreciation / Amortisation reflects the write back of the amortisation of goodwill charged in the year.

29 ALTERNATIVE PERFORMANCE MEASURE (APM)

The Company uses the non-statutory alternative performance measure (APM) of 'EBITDA (Adjusted)' to monitor the financial performance of the Company internally. This measure is not a statutory measure in accordance with IFRS. We report the adjusted measure because we believe that it provides both management and other stakeholders with useful additional information about the financial performance of the Company's operations.

APMs are not defined by IFRS and therefore may not be directly comparable with similarly titled measures reported by other companies. APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, statutory IFRS measures. We believe the non-IFRS measure is a useful metric to help users of the accounts understand the results of the Company's operations and profitability because it permits users to evaluate profitability from underlying operating activities. We also use this measure internally to track Company performance, establish operational and strategic targets and make business decisions.

We believe EBITDA (Adjusted) facilitates operating performance comparisons between periods and among other companies in industries similar to ours because it removes the effect of variation in capital structures, taxation, and non-cash measures such as amortisation and impairment, which may be unrelated to operating performance. We believe EBITDA (Adjusted) is a useful measure of our underlying operating performance because it excludes the impact of non-underlying items which are not related to our core operating activities and more closely aligns the recognition of rent free periods in profitability with the corresponding cash impact.

The table below provides a reconciliation of the statutory IFRS measures to the APM used to measure the business:

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
EBITDA (Adjusted)		
Statutory (Loss) / Profit before tax	(4.9)	49.0
Net Finance Costs	159.0	1.8
Operating Profit	154.1	50.8
Non-underlying Items (See note 6)	14.8	9.1
Underlying operating profit	168.9	59.9
Reverse IFRS 16 Rent Adj ⁽¹⁾	(210.2)	-
Depreciation, Amortisation - Underlying	165.4	58.6
EBITDA - before Rent Free Adjustment	124.1	118.5
Rent Free Adjustment ⁽²⁾	2.3	1.9
Adjusted EBITDA⁽³⁾	126.4	120.4

(1) The rent payable for operating leases of £207.9m and the rent free adjustment of £2.3m are replaced by depreciation of the right of use asset and notional financing costs on the lease liability under IFRS 16. This adjustment has been reversed to calculate the adjusted EBITDA⁽³⁾

(2) In many of our leases we receive a rent free period at the beginning of the lease term. Prior to IFRS 16, the benefit of this rent free period is held as an accrual on our balance sheet and is recognised in our 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. As a result, our rent expense does not reflect our cash payments of rent in any period. EBITDA (adjusted) in each period recognises the portion of the credit attributable to such period as if such credit were applied on a straight line basis until the next rent review, normally five years, which is the measure which is used for internal management reporting.

(3) EBITDA (adjusted) = Earnings before interest, tax, depreciation and amortisation, and before rent free adjustment, non-underlying items and reflective of the position in line with the accounting principles applicable to the previous year for purposes of comparability (before IFRS 16). Non-underlying items have been removed as they relate to non-recurring, one-off items.