

Company registration number

0769170

TRAVELODGE HOTELS LIMITED

Report and financial statements

For the year ended 31 December 2018

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TRAVELODGE HOTELS LIMITED
REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 2018

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**TRAVELODGE HOTELS LIMITED
OFFICERS AND PROFESSIONAL ADVISERS**

DIRECTORS

Joanna Boydell
Peter Gowers
Paul Harvey
Brian Wallace

COMPANY SECRETARY

Joanna Boydell
Katherine Thomas

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SOLICITORS

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Chartered Accountants and Statutory Auditors
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TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

Founded in 1985, Travelodge is one of the UK's leading hotel brands based on number of hotels and number of rooms operated. The Group leased, franchised and managed 575 hotels and 43,840 rooms across the UK, Spain and Ireland at 31 December 2018, under the umbrella of the holding company Thame and London Limited. Travelodge Hotels Limited covers the UK and Ireland only, with the 5 leases and 621 rooms in Spain held in a different subsidiary. We operate in the attractive midscale and economy sector of the hotel market (as defined by Smith Travel Research) and are positioned as a low-cost operator, offering standardised, modern guest rooms at affordable prices to both business and leisure customers. Our brand currently has brand recognition of over 97% among the UK population (as measured by a YouGov brand tracking survey), driven by our long-standing market presence, wide geographic network and effective national marketing initiatives.

We are a predominantly UK leasehold business, representing 98% of total revenue. In addition we operate eleven hotels under management contract in the UK and twelve hotels under franchise in Ireland and Northern Ireland. We estimate we attracted approximately 19 million customers last year and 93% of our bookings were made through our direct channels. We employ almost 12,000 people across our hotels and support offices, the majority of whom work in our hotels on hourly paid contracts.

The Directors present the Strategic Report of the financial statements of Travelodge Hotels Limited ("THL" or "Travelodge") for the year ended 31 December 2018.

Summary

Our strategic focus on location, price and quality has enabled Travelodge to deliver a set of excellent results. We extended our network of hotels, remained focused on delivering attractive prices and took another step forward on quality. Once again we outperformed our competitive segment and delivered another year of strong growth.

Travelodge delivered total revenue growth of 9.0% in 2018, with 3.2% like-for-like RevPAR growth and a significant contribution from new hotels opened since 2017.

We have continued to outperform our competitive segment with our like-for-like RevPAR growth 2.3pts ahead of the STR MSE segment, which grew by 0.9%.

This strong growth has helped to mitigate the impact of significant cost increases, particularly the National Living Wage, business rates and the costs associated with our improved occupancy. EBITDA⁽³⁾ of £119.0m was up £10.2m on the prior year.

We opened 17 hotels in 2018 with a further 3 opened shortly after year-end.

Financial Highlights

- Total revenue **up 9.0%** to £680.2m (2017: up 6.2% to £624.0m)
- RevPAR⁽¹⁾ **up 3.2%** to £41.69 (2017: up 2.9% to £40.40)
- RevPAR⁽¹⁾ growth **2.3pts ahead** (2017: 0.7pts ahead) of competitive segment⁽²⁾
- Occupancy⁽¹⁾ **up 2.5pts** to 78.5% (2017: 76.0%)
- Average room rate⁽¹⁾ maintained at £53.09 (2017: £53.13)
- EBITDA⁽³⁾ **up £10.2m** to £119.0m (2017: £108.8m)

Operational Highlights

- **17 new hotels** opened in the year, further 3 shortly after year end
- **'Premium economy' SuperRooms** rolled out across 47 hotels
- First **'budget chic' Travelodge Plus** hotels launched
- UK and Ireland Estate now stands at 570 hotels and 43,219 rooms (up 4%)⁽⁴⁾

(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 2018 vs. FY 2017 on the basis of RevPAR generated by hotels that were opened before 1 January 2017.

(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, taxes, depreciation and amortisation, and exceptional items. Exceptional items have been removed as they relate to non-recurring or one-off items.

(4) As at 31 December 2018

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UK like-for-like RevPAR was up 3.2% to £41.69, 2.3pts ahead of the growth rate of the STR MSE segment, which was up 0.9% for the same period.

Our investments in an improved standard room product, 'SuperRooms' and 'Travelodge Plus' have helped attract a growing number of customers and we continue to use effective revenue management to optimise the balance between occupancy and rate growth. We grew UK like-for-like occupancy by 2.5pts to 78.5%, with UK like-for-like average room rate maintained at £53.09 (2017: £53.13).

The positive like-for-like sales growth, together with good growth in food and beverage sales and the contribution from our maturing new hotels opened since the beginning of 2017, has resulted in total revenue growth of 9.0% for the year, to £680.2m.

Cost increases were driven by the pressures on the like-for-like estate and the extra costs associated with additional new hotel openings.

In the like-for-like estate, the principal regulated cost pressures included the impact of the National Living Wage, higher business rates and changes to the rules regarding charges for payment cards. Operational costs were also higher as a result of the direct costs associated with our higher occupancy levels and higher utility costs in connection with weather patterns.

For new hotels, the cost increases principally reflect the additional lease costs, wages and other operating costs from a full year of operation for hotels opened in the prior year, and those costs from the date of completion of the 17 new hotels opened during the year.

We continued our ongoing productivity and efficiency programme and this helped to mitigate the overall impact of the cost pressures, and EBITDA⁽³⁾ increased by £10.2m to £119.0m (2017: £108.8m).

Strategy

We continue to make good progress towards our aim of becoming the favourite hotel for value, by delivering our customers a combination of location, price and quality that suits their travel needs.

Location

We successfully opened 17 hotels in 2018, including our first new-build 'Travelodge Plus' hotel in the City of London, which continues to perform in line with expectations, alongside our other new and maturing hotels.

The UK & Ireland Travelodge network stood at 570 hotels at the end of 2018 with a further 3 opened shortly after the year end. At this early stage of the year we remain on-track with our new opening programme for 2019. We expect to open 20 new hotels in the year with the majority scheduled to open in the final quarter.

Price

Our value proposition continues to support our strong revenue growth, including record food and beverage sales. Our investments in the website continue to deliver improvements to the customer journey. Targeted customer offers have helped to improve website conversion, driving increased occupancy and outperformance.

Quality

We continued to strengthen quality and choice for our guests, investing in our refit upgrade programme on the core estate, adding SuperRooms to 47 hotels and launching the first 6 'Travelodge Plus' hotels. We also completed the roll-out of our new Wi-Fi network as planned, offering customers improved speed and reliability.

We maintained our average 4 star TripAdvisor rating and increased our number of certificates of excellence during the year. In 2018, for the first time, we were ranked as one of TripAdvisor's top 10 Global 'Most Excellent' Large Hotel Chains. Our continued attractiveness to business customers looking to save money in travel costs was reflected in Travelodge winning 'Best Budget Hotel' at the 2019 Business Travel Awards.

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Five year review 2013-2018

Since the launch of our new strategy five years ago, Travelodge has undergone a substantial transformation.

We have extended our hotel network, opening more than 60 new hotels and increasing our presence in key city centres, business parks and leisure destinations. We now have more than 570 hotels, operating across the UK and Ireland. More than 180 of our hotels now have on-site bar cafe restaurants. The changing shape of our network reflects the changes to the needs of our customers and we have come a long way from our original beginnings as a roadside hotel chain, with the majority of our revenues now coming from city centre locations.

We have remained true to our budget roots, continuing to offer attractive prices for both businesses and leisure customers alike. More than half of all Travelodge rooms are still sold for less than £50 per night, and we have welcomed thousands of new business accounts, many taking advantage of our business account card. Our occupancy has increased significantly and we have grown our RevPAR at a compound annual growth rate (CAGR) of 7.3%, almost 3 percentage points faster than our competitive segment, which grew at a CAGR of 4.4% over the same period.

We have made significant investments to improve the quality of our hotels. We undertook a £100m modernisation programme of our core estate, introducing a new-look design, bespoke Travelodge Dreamer beds and new separate beds for children in our family rooms. We now offer more choice for customers, with the addition of 'premium economy' SuperRooms that offer an extended choice of pillows, USB charging ports, a larger desk and a Lavazza coffee pod machine. We launched our first new 'budget chic' Travelodge Plus hotels in London, Edinburgh, York, Brighton and Gatwick Airport, featuring more stylish rooms and new-look restaurants. These improved quality levels culminated in Travelodge being named for the first time as one of TripAdvisor's Top 10 Global 'Most Excellent' Large Hotel Chains in 2019, and being recognised at the 2019 Business Travel Awards as 'Best Budget Hotel Brand'.

Our transformation has been made possible by the enormous hard work and commitment of our more than 10,000 colleagues across the UK and Ireland. We are therefore proud to have been able to ensure they have also shared in the benefits of our growth, through a significantly improved employment package. We have continued to invest in our Aspire training programme, which has seen hundreds of colleagues progress from entry-level roles into management. We ended the practice of out-sourcing housekeeping, bringing our housekeeping colleagues into our directly employed team, we abolished the use of zero hour contracts, introducing minimum guaranteed hours and offering more advance notice of shift patterns. We strengthened our record on gender diversity and the majority of hotel managers are now women. Our track record in helping colleagues grow their careers was reflected in record numbers of applicants for roles with Travelodge in 2018.

The net result of these changes has been a significant improvement in our key metrics:

	2013	2018	Increase
RevPAR	£29.36	£41.69	+ £12.33
Total Revenue	£426.4m	£680.2m	+ £253.8m
EBITDA ⁽³⁾	£39.1m	£119.0m	+ £79.9m
Network Size (rooms)	37,595	43,219	+ 5,624 rooms

With the strength of the value sector, UK households still spending a relatively small percentage of household income on domestic hotels, the trend for businesses to choose budget and our platform of domestic scale, international bridgeheads and established franchise operations, we believe that once the current pressures abate, we are well positioned to build on our improved position in the years ahead.

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Outlook

The UK economic situation remains uncertain and there are well documented cost pressures facing the wider sector, which together lead us to maintain a cautious short-term outlook.

The first quarter of the year is our smallest in revenue terms and our lowest occupancy period, with typically lower levels of business and leisure demand. In the first 8 weeks of the year, the STR MSE segment has seen mixed trading. Overall the STR MSE segment RevPAR is down 2.3%⁽¹⁾, with relatively strong London growth offset by declining performance in the Regions. Travelodge has continued to outperform the segment, largely as a result of stronger occupancy. Our new opening programme remains on-track, with the majority of our new hotels for 2019 expected to open in the final quarter of the year.

Results

Results for the Company are for the full year ended 31 December 2018, with comparatives for the full year ended 31 December 2017.

	Year ended 31 Dec 2018	Year ended 31 Dec 2017	Var	Var
	£m	£m	£m	%
Key income statement items				
Revenue	680.2	624.0	56.2	9.0%
Operating expenses	(367.2)	(334.4)	(32.8)	(9.8)%
<i>Of which cost of goods sold</i>	<i>(41.8)</i>	<i>(37.8)</i>	<i>(4.0)</i>	<i>(10.6)%</i>
<i>Of which employee costs</i>	<i>(162.5)</i>	<i>(147.7)</i>	<i>(14.8)</i>	<i>(10.0)%</i>
<i>Of which other operating expenses</i>	<i>(162.9)</i>	<i>(148.9)</i>	<i>(14.0)</i>	<i>(9.4)%</i>
Net external rent payable	(194.0)	(180.8)	(13.2)	(7.3)%
EBITDA	119.0	108.8	10.2	9.4%
Amortisation	(4.8)	(4.8)	-	-
Depreciation	(54.1)	(46.9)	(7.2)	(15.4)%
Operating profit (before exceptional items)	60.1	57.1	3.0	5.3%
Net financing costs	(1.8)	(9.8)	8.0	81.6%
Income tax	9.8	(0.7)	10.5	1500.0%
Profit for the period (before exceptional items)	68.1	46.6	21.5	46.1%
Exceptional items	(9.1)	(2.1)	(7.0)	(333.3)%
Profit for the period	59.0	44.5	14.5	32.6%

Revenue

Revenue increased by £56.2m, or 9.0%, from £624.0m for the year ended 31 December 2017 to £680.2m for the year ended 31 December 2018. This increase was primarily due to like-for-like UK RevPAR growth of 3.2%, maturity of the 15 new hotels opened in 2017 and the 17 new hotels opened in the year. We also achieved strong revenue growth in food and beverage. Like-for-like UK RevPAR growth of 3.2% was ahead of the STR MSE segment by 2.3pts, which showed growth of 0.9%.

¹ STR MS&E RevPAR growth 27 Dec 18 to 20 Feb 19

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Operating expenses

Operating expenses (before exceptionals) increased by £32.8m, or 9.8%, from £334.4m for the year ended 31 December 2017 to £367.2m for the year ended 31 December 2018. Cost increases were driven by a combination of occupancy growth, the cost pressures on the like-for-like estate and by increased costs from our new and maturing hotels opened since 2017.

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

Other operating expenses are largely driven by higher utility costs as a result of price increases and the impact of weather-related usage, changes to the regulation of payment card charges and increases in business rates, as well as new hotels.

Net external rent payable

Net external rent payable increased by £13.2m, or 7.3%, from £180.8m for the year ended 31 December 2017 to £194.0m for the year ended 31 December 2018. This increase was primarily due to 17 new hotel openings during the year, the annualisation of 15 new hotel openings in 2017 and upwards only rent reviews predominantly linked to RPI.

Depreciation / amortisation

Depreciation increased by £7.2m, or 15.4%, from £46.9m for the year ended 31 December 2017 to £54.1m for the year ended 31 December 2018. This is mainly due to new hotel openings and investment in maintenance, refurbishment and upgrading our hotels to offer SuperRooms, Travelodge Plus and improved Wi-Fi.

Net finance costs

Net finance costs decreased by £8.0m from £9.8m for year ended 31 December 2017 to £1.8m for the year ended 31 December 2018, primarily due to an increase of intercompany interest received from other group companies following the refinancing and also an increase in bank interest received due to amounts received in respect of 2017 in April 2018 and an increase in the LIBOR rate during 2018.

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. The company continues to monitor the progress of tax legislation through the UK Parliament.

Income tax decreased by £10.5m, from a charge of £0.7m for the year ended 31 December 2017 to a credit of £9.8m for the year ended 31 December 2018. This movement is non-cash and entirely relates to changes in the deferred tax liability that may arise on the crystallisation of the revaluation reserve and differences between accounting depreciations and capital allowances.

Exceptional items

Exceptional items increased by £7.0m, or 333.3%, from £2.1m for the year ended 31 December 2017 to £9.1m for the year ended 31 December 2018.

Exceptional items of £9.1m for the year ended 31 December 2018 included £6.7m for the impairment of fixed assets, a net provision reassessment of £3.1m and £0.8m relating to the surrender of the lease at the closed Gatwick Airport hotel, partially offset by an inflow of £1.5m relating to the surrender of the lease at Cambridge Lolworth.

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

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Funding, Covenant Compliance & Going Concern

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

	31 Dec 18	31 Dec 17
	£m	£m
Bonds - Fixed rate	232.0	261.0
- Floating rate	195.0	165.0
- Issue costs	(6.2)	(7.6)
Secured Debt	420.8	418.4
Cash	(81.8)	(95.0)
External Net Debt (excluding finance leases)	339.0	323.4

The total funding of the Group is summarised below:

	31 Dec 18	31 Dec 17
	£m	£m
Bonds	420.8	418.4
Unsecured (Loan Notes)	97.0	117.4
Total Funding	517.8	535.8

At 31 December 2018, the Group had utilised £14.8m of the Letter of Credit Facility (with a maximum amount of £30.0m) (2017 utilised: £14.9m) in favour of the Group's credit card acquirer and lease guarantees.

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

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

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

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Employee Involvement

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

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

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

New colleagues undergo an induction 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 jobs to management positions. Our management development programme, 'Aspire' is central to our approach, helping delegates acquire practical management skills and secure promotion. Our colleagues develop through on the job training and some through professional qualifications.

The company provides information 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.

We also collate feedback using an employee engagement survey to gauge opinions, gain important people insight and to enable actions to encourage high levels of engagement throughout the business.

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 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 remains embedded as a way of life across the organisation.

At 31 December 2018 the Company employed 11,635 people with the following gender breakdown:

	Female	Male
Board*	25%	75%
Senior Management (Ops Board)	38%	63%
Other	73%	27%
Total	73%	27%

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

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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.

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.

Safety, Security and Corporate Social Responsibility

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

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

Safety and Security at the Hotels

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

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

To aid us to ensure that all our practices and procedures are correctly implemented we use an independent expert company to carry out 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.

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

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Accessibility Guidelines 1.0 where possible. These guidelines have been published by the World Wide Web Consortium to promote accessibility.

Environmental Impact

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

Every new build Travelodge hotel has the following green features:

- Low energy lighting 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.

In addition to the above measures Travelodge works with energy consultants to consider future improvements, including during 2018 to begin a retrofit of common area and back office lighting to energy LED technology. Travelodge has an Energy Governance group whose responsibility is to monitor the changing energy landscape and provide guidance and recommendation to the business.

Engagement in the Community

Our charity partner is chosen by a company-wide team member vote. Since February 2017 our partner has been the British Heart Foundation and we have raised over £150,000 in 2018 for this charity. We raise funds through activities across the length and breadth of the country, from cricket matches to cycle rides and 'DECHOX diets'. We are also making life-saving CPR training available to colleagues, which commenced in 2017.

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

For each customer who chooses to purchase their own Travelodge Dreamer bed, our partner Sleepzee also makes a donation to our charity partner.

Risk Management

Travelodge has 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, in particular we seek to reduce the risk to:

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

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

Brexit risk

The UK electorate voted in favour of a UK exit from the EU, via an in-or-out referendum, which was held on June 23, 2016 ("Brexit"). A process of negotiation has commenced between the UK Government and the EU to determine the future terms of the United Kingdom's relationship with the European Union.

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We are headquartered and tax domiciled in the United Kingdom and the consequences of Brexit could be materially adverse to our business, results of operations and financial condition. Despite the Article 50 Notice having been served, there remains insufficient information about the likely terms of the post-Brexit arrangements between the UK and the EU, as well as about any possible transitional arrangements, to draw any firm conclusions about the probable impact.

Depending on the terms of Brexit, the United Kingdom could lose access to the EU single market and to the global trade deals negotiated by the European Union on behalf of its members. Such a decline in trade could affect the attractiveness of the United Kingdom as a global investment centre and, as a result, could have a detrimental impact on UK growth. Uncertainty around the timing and terms of Brexit, as the UK government seek to implement the results of the referendum, could also have a negative impact on the UK economy. We could be adversely affected by reduced growth in the UK economy and greater volatility in the Pound. Changes to UK border and immigration policy could likewise occur as a result of Brexit, affecting the number of travellers to the United Kingdom and the freedom of employers to recruit staff from outside the United Kingdom. A portion of Travelodge's workforce comprises of non-UK EU citizens and a decline in the number of such citizens in the UK could have a detrimental effect on Travelodge's ability to recruit staff. While Travelodge is predominantly a domestic business, it is possible that any of the foregoing factors could have a material adverse effect on our business, results of operations or financial condition. There is also a risk of the creation of a data frontier between the UK and the EU: the inability to move data freely between the UK and EU countries might cause us, who rely on third party data hosting where that data is stored in EU countries, to efficiently operate our booking and reservation systems.

A cross functional team has developed, is developing and continues to review mitigation plans to these risks where appropriate and possible to do so, should any of the probable scenarios concerning Brexit crystallise.

Macroeconomic risk

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

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

Financial risk including inflation and interest rate risk

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

The costs we incur under our leases may increase, and we may not be able to pass on increased costs.

Most of our operating leases are standard triple net operating leases with typical commercial terms and an initial term of 25 years (although properties in city centers and in London are occasionally operated on an initial lease term of 35 years or longer). A triple net lease designates the lessee as solely responsible for all costs relating to the property, such as property tax, building maintenance and buildings insurance. Most of our leases are subject to standard five-yearly upwards-only rent reviews, indexed against the RPI, RPIX or, increasingly, the CPI. Some of these leases have caps and collars, thus granting us an upper and lower limit on the rent adjustment, usually at 4% and 1% respectively. A small number have fixed uplifts of about 2.5% per annum. Due to the high fixed-cost structure of our leased properties, an increase in rental cost may have a material adverse effect on our results of operations and financial condition.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

Regulatory risk

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

Health and Safety risk

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

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

The Company also maintains relevant insurance cover to an appropriate level both where required under regulation or where consider supportive to mitigate a specific risk.

Terrorism risk

Our operations are exposed to risks such as acts of terrorism, conditions of political instability, events of military action that could adversely affect domestic or international travel or may be adversely affected by natural disasters (including floods), contagious diseases, epidemics or acts of God.

Our results have been and will continue to be affected by political crises outside our control that affect the level of global travel and business activity, including terrorist attacks, war, and other political instability, whether occurring in the United Kingdom or elsewhere. Disruptions to our business operations as a result of political instability or other adverse conditions in the countries in which we operate could negatively affect our profitability, especially if such disruptions take place during peak travel periods. For example, the terror attacks that took place in London in 2005, affected our business by reducing the number of tourists visiting London and the United Kingdom. The occurrence and consequences of such events are unpredictable, and further attacks, political instability or military action could have a material adverse effect on the travel, hospitality and leisure industries in general, affecting the locations in which we operate and our business and results of operations.

Cyber risk

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

The Company processes large numbers of transactions via its proprietary website and in-hotel payment systems. Customer data is used in accordance with our published privacy policy, and stored within the EU or in accordance with current EU data governance requirements. With regard to credit card data, the Company works to the provisions of PCI DSS 3.2, and audits as a tier one merchant. All credit card information is kept confidential through industry-standard encryption techniques.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT

It is Company policy to manage information in compliance with relevant Data Protection regulations including the Data Protection Bill (2018) and General Data Protection Regulation. 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.

The Company has invested in cyber insurance to mitigate the consequences of major unforeseen, or unavoidable service disruptions which might be caused by a cyber-related risk.

Continuity of booking and payment system risk

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

The Company is highly reliant on information technology for both its day to day operations and as an essential enabler of the customer booking journey, consequently the failure of core systems could significantly disrupt trading and our operation and adversely impact the Company's performance. To mitigate this risk, the Company works extensively with, and is dependent upon, specialist third-party providers to maintain our systems, optimise performance, upgrade our infrastructure, and provide appropriate resilience. The Company employs reasonable back-up systems and seeks to remove or mitigate single points of failure. The Company also conducts on-going risk assessments and business continuity planning.


Competitor risk

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

Supplier risk

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

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



Joanna Boydell, CFO

4 April 2019

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 2018.

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 2018, with comparatives for the full year ended 31 December 2017.

For 2018, the Company made EBITDA of £119.0m (2017: £108.8m), Operating Profit before exceptionals of £60.1m (2017: £57.1m), Profit before Tax and Exceptionals of £58.3m (2017: £47.3m) and Profit before Tax of £49.2m (2017: £45.2m).

Ownership

At 31 December 2018, the Directors regarded Anchor Holdings SCA Luxembourg as the ultimate controlling party.

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

GoldenTree Asset Management is an asset management firm that specialises in opportunities across the credit universe in sectors such as high yield bonds, leveraged loans, distressed debt, structured products, emerging markets and credit-themed equities. The firm was founded in 2000 with offices in New York, London and Singapore, and manages over \$29 billion in assets under management.

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

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

Currency

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

Financial Risk Management

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

Insurance

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

TRAVELODGE HOTELS LIMITED

DIRECTORS' REPORT

Taxation

The underlying income tax credit for the year of £9.8m (2017: charge of £0.7m) relates entirely to changes in the deferred tax liability that may arise on the crystallisation of the revaluation reserve and differences between accounting depreciations and capital allowances. There were no cash tax payments during the year.

Dividend

The Directors do not recommend the payment of a dividend.

Independent Auditors

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

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



Joanna Boydell, CFO

4 April 2019

TRAVELODGE HOTELS LIMITED

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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

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

The directors are 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

4 April 2019

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 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2018; the income statement, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 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 set out on page 16, 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
4 April 2019

TRAVELODGE HOTELS LIMITED
INCOME STATEMENT
For the year ended 31 December 2018

	Notes	Year ended 31 December 2018			Year ended 31 December 2017		
		Before exceptional items £m	Exceptional items £m	After exceptional items £m	Before exceptional items £m	Exceptional items £m	After exceptional items £m
Turnover	2	680.2	-	680.2	624.0	-	624.0
Operating Costs	3/4	(367.2)	-	(367.2)	(334.4)	1.3	(333.1)
Rent	3/4	(194.0)	(2.4)	(196.4)	(180.8)	(3.4)	(184.2)
EBITDA¹		119.0	(2.4)	116.6	108.8	(2.1)	106.7
Depreciation and Amortisation	3/10/11	(58.9)	(6.7)	(65.6)	(51.7)	-	(51.7)
Operating profit		60.1	(9.1)	51.0	57.1	(2.1)	55.0
Profit before interest and taxation		60.1	(9.1)	51.0	57.1	(2.1)	55.0
Interest receivable and similar income	7	11.7	-	11.7	3.3	-	3.3
Interest payable and similar expenses	4/8	(13.5)	-	(13.5)	(13.1)	-	(13.1)
Profit before taxation		58.3	(9.1)	49.2	47.3	(2.1)	45.2
Tax credit / (charge) on profit	9	10.7	(0.9)	9.8	(0.7)	-	(0.7)
Profit for the financial year		69.0	(10.0)	59.0	46.6	(2.1)	44.5

All results are derived from continuing operations.

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

TRAVELODGE HOTELS LIMITED
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Profit for the financial year	59.0	44.5
Total comprehensive income for the year ⁽¹⁾	59.0	44.5

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

	Note(s)	Called Up Share Capital £m	Revaluation Reserve £m	Profit and Loss Account £m	Total Shareholders' Funds £m
Balance at 1 January 2018		300.0	117.1	(101.0)	316.1
Profit for the financial year		-	-	59.0	59.0
Total comprehensive (expense) / income for the year		-	-	59.0	59.0
Deferred tax on revaluation reserve	9/20	-	2.1	(2.1)	-
Difference between historical cost depreciation charge and the actual depreciation charge for the year	20	-	(8.9)	8.9	-
Revaluation reserve adjustment in respect of prior years	20	-	0.7	(0.7)	-
Reserves movement in relation to impairment of assets	11/20	-	(3.6)	3.6	-
Total movement for the year		-	(9.7)	68.7	59.0
Balance at 31 December 2018		300.0	107.4	(32.3)	375.1

For the year ended 31 December 2017

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

(1) In 2017 the reserve transfers in respect of depreciation and the related deferred tax were included in the Statement of Comprehensive Income in error and have been removed from the comparatives this year.

TRAVELODGE HOTELS LIMITED
STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

		31 December 2018 £m	31 December 2017 £m
	<i>Note</i>		
FIXED ASSETS			
Intangible assets	10	13.3	12.9
Tangible assets	11	350.6	358.0
Investments	12	-	-
		363.9	370.9
CURRENT ASSETS			
Stocks	13	1.1	1.0
Debtors	14	320.4	225.9
Cash at bank and in hand		77.1	91.9
		398.6	318.8
Creditors: Amounts falling due within one year			
Trade and other payables	15	(290.8)	(275.0)
Provisions	18	(3.3)	(2.9)
		(294.1)	(277.9)
NET CURRENT ASSETS		104.5	40.9
TOTAL ASSETS LESS CURRENT LIABILITIES		468.4	411.8
Creditors: Amounts falling due after more than one year	16	(58.9)	(55.7)
Provisions for liabilities	18	(34.4)	(40.0)
NET ASSETS		375.1	316.1
CAPITAL AND RESERVES			
Called up share capital	19	300.0	300.0
Revaluation reserve	20	107.4	117.1
Profit and loss account	20	(32.3)	(101.0)
TOTAL SHAREHOLDERS' FUNDS		375.1	316.1

These financial statements on pages 19 to 34 were approved by the Board of Directors and signed on their behalf by



Joanna Boydell
Director

4 April 2019

Travelodge Hotels Limited

Company registration number

0769170

1 ACCOUNTING POLICIES

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

Basis of accounting

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

These financial statements are prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 applicable to the Company reporting at 31 December 2018.

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

The preparation of financial statements in conformity with FRS102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed on page 25.

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

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

Exemptions

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

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

Group financial statements

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

Turnover

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

Stocks

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

Goodwill

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

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

1 ACCOUNTING POLICIES (CONTINUED)

Tangible assets

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

On transition, the revaluation reserve remains in accordance with the Companies Act 2006. Tangible assets are tested for impairment when an indicator of impairment is identified. Any impairment of the carrying value is charged to the income statement. Impairment charges through the income statement relating to previously revalued assets are subsequently transferred from the profit and loss reserve to the revaluation reserve.

Depreciation is charged to the income statement. A transfer is made from retained earnings to the revaluation reserve for increased depreciation arising on the revalued portion of the assets held. On the subsequent sale or retirement of a revalued leasehold, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings.

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

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

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

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

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

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

IT software

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

Leased assets

Rental costs or income under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease, allowing for inflationary increases. Incentives received by the Group to enter into leases as a lessee are credited to the profit and loss account on a straight line basis over the lease term.

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

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

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

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

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

1 ACCOUNTING POLICIES (CONTINUED)

Impairment

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

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

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

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

Taxation

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

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

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

Fixed Asset Investments

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

Pension Costs

The Company offers a defined contribution scheme to its employees. The amount charged to the income statement for the scheme in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet. The assets of the scheme are held separately from those of the Company in an independently administered fund.

Provisions

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

Prepaid Room Purchases

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

Exceptional items

The Directors believe that in order to understand the underlying performance of the business, material and non-recurring items should be separately disclosed as exceptional items in the profit and loss account (note 4).

1 ACCOUNTING POLICIES (CONTINUED)

Critical accounting judgements and estimation uncertainties

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

Onerous lease provisions

The Company has provided for operating lease rentals where these are above the market rate or where the Company has vacated the property and the rental income is less than the rental expense, or where it is probable a previously sublet unit will revert to the Company. The element of the rental which is above market or above any rental cost paid relating to vacated properties is charged against the provision. Provisions are also made for the business rates that the Company is liable to on empty sites and on hotels where it is considered improbable that trading profits will be generated. The key estimation judgement in determining the onerous amount is the period over the remaining lease term that the property will remain either rented or vacant. The Directors have estimated these periods after considering both the quality and the location of each of the units provided for. The cash flows are discounted at 4.0% (2017: 4.0%) representing a risk free and pre-tax rate based on 25 year government gilt and further adjusted for property risk.

Intangible and tangible assets - hotel assets

Significant judgement is involved in the process of identifying and evaluating hotel carrying values. These assets with a finite life are reviewed for impairment when an impairment trigger is identified. Calculating any subsequent impairment, principally in the estimation of the future cash flows of the cash generating units and the discount rate applied to each cash generating unit involves judgement. The Company prepares cash flow forecasts derived from the most recent financial budgets and financial plans approved by the Directors and extrapolates cash flows beyond this time based on an estimated long term growth rate of 3.0% (2017: 2.5%). The key assumptions are consistent with past experience and with external sources of information. The resulting cash flows are discounted back at the Company's risk adjusted pre-tax weighted average cost of capital of 9.0% (2017: 9.0%). When calculating the discount rate, the market-weighted average cost of capital for the sector was used based on a portfolio of similar hotel businesses. Reviews are performed on a site by site basis over the length of the lease. The Directors have considered the Company's financial projections and the assumptions which underpin those projections including future growth of the budget hotel sector, brand demand and occupancy. For the purposes of testing for hotel asset impairment, growth rates are assumed to broadly follow the Retail Price Index beyond the life of the financial plan.

Depreciation and residual values

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

2 TURNOVER

Turnover of £680.2m (2017: £624.0m) represents amounts derived from the provision of goods and services wholly within the UK which fall within the Company's ordinary activities after the deduction of trade discounts and value added tax. All turnover relates to the principal activity of the Company, which is the supply of hotel rooms.

3 NET OPERATING EXPENSES (BEFORE EXCEPTIONAL ITEMS)

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Operating profit is stated after charging / (crediting):		
Cost of sales	41.8	37.8
Employee costs (note 5)	162.5	147.7
Fees payable for the audit ¹	0.4	0.3
Operating expenses	162.5	148.6
Net operating expenses before rent, depreciation and exceptional items	367.2	334.4
Rent ² - payable	198.0	184.5
- receivable	(4.0)	(3.7)
Net rent payable	194.0	180.8
Net operating expenses	561.2	515.2
Amortisation of intangible assets	4.8	4.8
Depreciation of tangible assets	54.1	46.9
Net operating expenses before exceptional items	620.1	566.9
Exceptional items (note 4)	9.1	2.1
Total net operating expenses	629.2	569.0

1. Fees payable for the audit of the company were £0.2m (2017: £0.1m). During the year, the company also paid £0.2m (2017: £0.2m) on behalf of other group companies for the audit of their financial statements. Non-audit services of £nil (2017: £nil) were incurred.

2. All material operating lease charges relate to property.

4 EXCEPTIONAL ITEMS (BEFORE TAXATION)

In the financial year to 31 December 2018, exceptional charges (before taxation) of £9.1m for the year ended 31 December 2018 included £6.7m for the impairment of fixed assets, £3.9m of additional provisions recognised, less a provision reassessment release of £0.8m, 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.

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

5 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
Directors' emoluments		
Directors' emoluments	6.1	6.9
Total	6.1	6.9
Remuneration of the highest paid Director	2.8	2.7
	Number	Number
Number of Directors accruing benefits under the defined contribution scheme	-	-
	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
Employee costs during the year (including Directors)		
Wages and salaries	151.4	138.3
Social security costs	8.5	7.7
Other pension costs	2.6	1.7
Employee costs before exceptional items	162.5	147.7
Total employee costs	162.5	147.7
	Year ended 31 December 2018	Year ended 31 December 2017
	Number	Number
Average number of people employed	7,131	6,671
Total number of persons employed	11,635	11,071

The total number of employees at the year ended 31 December 2018 includes all employees whether full time or part time. The average FTE number of employees has been calculated as the average FTE number of people who were included on the Group's payroll during the year.

The average and total number of employees include executive Directors.

6 OPERATING LEASE COMMITMENTS

Total commitments under operating leases amounted to £4,326.1m (2017: £4,081.0m).

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
Due within one year	206.3	190.8
Due between one and five years	861.4	806.6
Due beyond five years	3,258.4	3,083.6
Total	4,326.1	4,081.0
	Year ended 31 December 2018	Year ended 31 December 2017
Average lease term remaining	17.4	17.8

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

7 INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Bank interest receivable	1.0	0.3
Interest receivable from group undertakings ¹	10.7	3.0
Total interest receivable	11.7	3.3

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

8 INTEREST PAYABLE AND SIMILAR EXPENSES

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Cash		
Finance lease interest charge	4.5	4.5
Accrued		
Finance lease interest charge	0.7	0.2
Unwinding of discount on provisions (note 18)	0.5	0.6
Interest payable to group undertakings ¹	7.8	7.8
Total interest payable	13.5	13.1

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

9 TAX ON PROFIT

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Current tax	-	-
Deferred tax:		
Origination and reversal of timing differences	0.7	0.7
Adjustment to deferred tax attributable to changes in tax rates and laws	(0.3)	-
Adjustment in respect of prior periods	(10.2)	-
Total deferred tax	(9.8)	0.7
Tax (credit) / charge on profit	(9.8)	0.7

9 TAX ON PROFIT (CONTINUED)

The differences between the total tax for the year and the amount calculated by applying the standard rate of tax for the year of 19.00% (2017: 19.25%) to the profit before taxation are as follows:

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Profit before taxation	49.2	45.2
UK corporation tax rate of 19.00% (2017: 19.25%)	9.3	8.7
Tax effect of:		
Expenses not deductible for tax purposes	2.3	1.3
Adjustment in respect of previous periods	(10.2)	-
Depreciation on non-qualifying assets	0.3	-
Tax relieved by group losses for nil consideration	(11.2)	(9.6)
Changes in closing deferred tax due to a change in the tax rate	(0.3)	0.3
Total tax (credit) / charge for the year	(9.8)	0.7

Deferred tax is as follows:

	31 December 2018 Provided £m	31 December 2018 Unprovided £m	31 December 2017 Provided £m	31 December 2017 Unprovided £m
Accelerated capital allowances	22.0	-	15.1	-
Tax losses and other timing differences	0.5	-	0.5	-
Deferred tax asset (note 14)	22.5	-	15.6	-
Revalued fixed assets	(21.2)	-	(24.0)	-
Deferred tax liability (note 18)	(21.2)	-	(24.0)	-
Net Deferred tax asset / (liability)	1.3	-	(8.4)	-

At 31 December 2018, a deferred tax asset of £22.5m (2017: £15.6m) has been recognised due to the reasonable expectation of sufficient taxable profits arising from which the future reversal of the underlying timing differences can be deducted. In addition, there is a deferred tax liability of £21.2m (2017: £24.0m) which has been recognised relating to the tax liability that may arise on the crystallisation of the revaluation reserve.

The deferred tax on the revaluation reserve is expected to reverse in line with the depreciation realised against the revaluation reserve each year. The reversal for 2019 is expected to be in line with 2018.

There is no unrecognised deferred tax.

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

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

10 INTANGIBLE ASSETS

	Goodwill £m	Computer Software £m	Total £m
Cost			
At 1 January 2018	6.0	14.2	20.2
Transfers ¹	-	5.4	5.4
Movement on capital creditor	-	(0.2)	(0.2)
Write off fully depreciated assets	-	(3.0)	(3.0)
At 31 December 2018	6.0	16.4	22.4
Accumulated amortisation			
At 1 January 2018	(2.1)	(5.2)	(7.3)
Charge for the year	(0.3)	(4.5)	(4.8)
Write off fully depreciated assets	-	3.0	3.0
At 31 December 2018	(2.4)	(6.7)	(9.1)
Net book value			
At 31 December 2018	3.6	9.7	13.3
At 31 December 2017	3.9	9.0	12.9

1. Total transfers of £5.4m are offset by total transfers of (£5.4m) within Tangible Assets (note 11).

11 TANGIBLE ASSETS

	Freehold land, freehold and Long leasehold buildings ³ £m	Short-term leasehold interests £m	Finance leaseholds £m	Assets Under Construction ¹ £m	Fixtures and fittings £m	Computer Equipment £m	Total £m
Cost							
At 1 January 2018	2.5	317.0	21.4	8.1	194.1	1.7	544.8
Additions	-	-	-	58.7	-	-	58.7
Transfers ²	-	1.4	-	(61.5)	52.7	2.0	(5.4)
Movement on capital creditor	-	0.4	-	-	(0.3)	-	0.1
Disposals	-	(0.3)	-	-	(0.2)	-	(0.5)
Write off fully depreciated assets	-	(0.2)	-	-	(33.4)	(1.1)	(34.7)
At 31 December 2018	2.5	318.3	21.4	5.3	212.9	2.6	563.0
Accumulated depreciation							
At 1 January 2018	(0.9)	(95.5)	(5.4)	-	(84.1)	(0.9)	(186.8)
Charge for the year	-	(12.2)	(0.4)	-	(41.1)	(0.4)	(54.1)
Disposals	-	0.3	-	-	0.2	-	0.5
Write off fully depreciated assets	-	0.2	-	-	33.4	1.1	34.7
Impairment of assets	-	(4.3)	-	-	(2.4)	-	(6.7)
At 31 December 2018	(0.9)	(111.5)	(5.8)	-	(94.0)	(0.2)	(212.4)
Net book value							
At 31 December 2018	1.6	206.8	15.6	5.3	118.9	2.4	350.6
At 31 December 2017	1.6	221.5	16.0	8.1	110.0	0.8	358.0

1. Assets under construction predominantly consists of on-going maintenance and refits, including SuperRooms and Travelodge Plus, 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. Total transfers of (£5.4m) is offset by total transfers of £5.4m within Intangible Assets (note 10).

3. Includes Freehold land stated at cost of £20,100 (2017: £20,100) which is not depreciated.

Impairment reviews are performed annually at the Company's year end of 31 December to identify any under performing sites. 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 3.0% (2017: 2.5%). The key assumptions are consistent with past experience and with external sources of information. The resulting cash flows are discounted back at the Company's risk adjusted pre-tax weighted average cost of capital of 9.0% (2017: 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. 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. This has resulted in an impairment provision of £6.7m in the period with respect to 10 sites.

An impairment of £6.7m was made in 2018 (2017: £nil).

12 INVESTMENTS

Ordinary shares
in subsidiaries
£m

Balance at 31 December 2017 and 31 December 2018

-

Investments held as fixed assets at 31 December 2018 constitute ordinary shares in subsidiary undertakings which are listed below:

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

*Denotes direct investment

13 STOCKS

	2018 £m	2017 £m
Finished goods and goods for resale	1.1	1.0

14 DEBTORS

	2018 £m	2017 £m
Trade receivables	7.1	6.3
Amounts owed by Group undertakings ¹	245.9	162.6
Deferred tax asset ² (note 9)	22.5	15.6
Other receivables	7.2	3.7
Prepayments	35.9	36.4
Accrued income	1.8	1.3
	320.4	225.9

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

2. Due after more than one year.

15 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018	2017
	£m	£m
Trade payables	(12.5)	(12.2)
Amounts owed to Group undertakings ¹	(160.4)	(152.6)
Taxation and social security	(14.0)	(10.5)
Other payables	(11.5)	(12.3)
Prepaid room purchases	(35.9)	(33.2)
Deferred income ²	(1.6)	(1.3)
Accruals	(54.9)	(52.9)
	(290.8)	(275.0)

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

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

16 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2018	2017
	£m	£m
Deferred income ¹	(26.1)	(23.5)
Total obligations under finance leases (note 17)	(32.8)	(32.2)
	(58.9)	(55.7)

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

17 OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments	Minimum lease payments
	2018	2017
	£m	£m
Amounts payable under finance leases		
Due within one year	(4.5)	(4.6)
Due between one and five years	(20.1)	(19.6)
Due beyond five years	(341.6)	(346.6)
	(366.2)	(370.8)
Less: future finance charges	333.4	338.6
Amount due for settlement after 12 months (Capital liability)	(32.8)	(32.2)

The Company holds 5 properties (2017: 5 properties) which have been classified as finance leases with a weighted average remaining lease term of 46 years (2017: 47 years).

Capital liability due within one year is £nil (2017: £nil).

18 PROVISIONS FOR LIABILITIES

An analysis of provisions for liabilities for the year ended 31 December 2018 is given below:

	Deferred Tax £m	Other Provisions £m	Total £m
Balance at 1 January 2018	(24.0)	(18.9)	(42.9)
Deferred tax on revaluation reserve	2.1	-	2.1
Other deferred tax credits to income	0.7	-	0.7
Reassessment of provisions	-	(3.1)	(3.1)
Cash spend	-	9.3	9.3
Unwinding of discount on provisions	-	(0.5)	(0.5)
Transfer from accruals	-	(3.3)	(3.3)
Balance at 31 December 2018	(21.2)	(16.5)	(37.7)
The balance can be analysed as:			
Due in less than one year	(1.6)	(1.7)	(3.3)
Due in greater than one year	(19.6)	(14.8)	(34.4)
	(21.2)	(16.5)	(37.7)

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

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

The deferred tax liability is shown in note 9.

A discount rate of 4% (2017: 4%) being the pre-tax risk free rate adjusted for property risk is used to calculate the net present value of the provisions.

Provisions of £16.5m (2017: £18.9m) comprise onerous lease provisions of £2.6m (2017: £8.9m) relating to future rent and rates liabilities on sub leased historic restaurant units, £7.3m (2017: £6.7m) relating to twelve UK hotels where it is considered improbable that trading profits will be generated within a period of 7 years and £6.6m (2017: £3.3m) of other provisions.

On 7th September 2018, Travelodge surrendered the lease of its Gatwick Airport hotel (one of two hotels leased at the airport). This resulted in the utilisation of a provision of £6.8m.

Onerous lease provisions relate to the future discounted cash outflow in relation to certain rent and rates liabilities where no economic benefit is expected to accrue to the Group. These provisions have an average lease term of 12 years and have been discounted at a pre-tax risk free rate of 4.0% (2017: 4.0%).

19 CALLED UP SHARE CAPITAL

	2018 £m	2017 £m
Issued and fully paid:		
300 million (2017: 300 million) ordinary shares of £1 each	300.0	300.0

20 RESERVES

	Revaluation Reserve £m	Profit and Loss Account £m	Total £m
At 1 January 2018	117.1	(101.0)	16.1
Profit for the financial year	-	59.0	59.0
Deferred tax on revaluation reserve	2.1	(2.1)	-
Depreciation on revaluation reserve ¹	(8.9)	8.9	-
Revaluation reserve adjustment in respect of prior years	0.7	(0.7)	-
Impairment of fixed assets offset against revaluation reserve	(3.6)	3.6	-
At 31 December 2018	107.4	(32.3)	75.1

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

21 POST BALANCE SHEET EVENTS

There were no significant post balance sheet events.

22 CAPITAL COMMITMENTS

Contracted future capital expenditure not provided for in these financial statements predominantly relates to expenditure on the refurbishment and maintenance of current hotels. At 31 December 2018 the capital commitment not provided for in the financial statements, subject to satisfactory practical completion, was £5.5m (2017: £5.7m).

23 CONTINGENT LIABILITIES

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

At 31 December 2018 the estimated annual contingent rental liability was £61k (2017: £61k), represented by 5 units (2017: 5 units) with an average annual rental cost per unit of £12k (2017: £12k) and an average lease term remaining of 36 years (2017: 37 years).

24 RELATED PARTY TRANSACTIONS AND ULTIMATE CONTROLLING PARTY

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

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

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

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

During 2014, certain property leases the Group had previously entered into with an external third party were sold on an arm's length basis to an entity which was controlled by the Group's ultimate owners. Some of these property leases were sold back to an external third party in 2016, with the remainder also being sold in 2018. All terms of these property leases and the value the Group is liable to pay were unchanged as a result of these transactions. In the year ended 31 December 2018, the property costs charged until transfer of ownership were £9.8m (2017: £24.4m) and there were no balances outstanding at 31 December 2018.