

**Company Registration No. 5893851**

**TRAVELODGE LIMITED**

**Report and financial statements**

**For the year ended 31 December 2007**

**TRAVELODGE LIMITED**

**REPORT AND FINANCIAL STATEMENTS 2007**

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**TRAVELODGE LIMITED**

**REPORT AND FINANCIAL STATEMENTS 2007**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

Keith Hamill (Chairman)  
Sameer Kamal Ibrahim Al Ansari  
Claude Sylvain Denis  
Paul Harvey  
Grant Hearn  
Anand Krishnan  
Jon Mortimore  
Guy Parsons

**COMPANY SECRETARY**

Jon Mortimore

**REGISTERED OFFICE**

Travelodge  
Sleepy Hollow  
Aylesbury Road  
Thame  
OX9 3AT

**BANKERS**

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

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

**SOLICITORS**

Addleshaw Goddard  
150 Aldersgate Street  
LONDON  
EC1A 3EJ

**AUDITORS**

Deloitte & Touche LLP  
Chartered Accountants  
LONDON

## **TRAVELODGE LIMITED**

### **DIRECTORS REPORT AND FINANCIAL REVIEW**

The Company has prepared its results for the 12 month period to 31<sup>st</sup> December 2007 in accordance with International Financial Reporting Standards. The Company was incorporated on 2<sup>nd</sup> August 2006 and on 5<sup>th</sup> September 2006, completed a transaction to purchase 100% of the share capital of TLLC Group Holdings Ltd, the holding company of the Travelodge budget hotels business. Accordingly, comparative results are for the period from the Company's incorporation on 2<sup>nd</sup> August 2006, a period of only five months.

On 21<sup>st</sup> April 2007, the Company entered into a sale and leaseback transaction whereby 17 hotels, held under long leasehold agreements, were to be sold and subsequently leased back. The transaction was fully completed by 6<sup>th</sup> September 2007 and raised gross consideration of £127.5m with an incremental rent charge in 2007 of £3.4m.

For the purposes of this financial review, the comparative information for a part year only is referred to as the reported results. In order to provide a clearer review of performance, the results are also presented on a 'normalised basis'. On the normalised basis, for the purposes of this report, proforma trading numbers for the Travelodge brand for the 12 month period to 31<sup>st</sup> December 2006 (including pre acquisition trading numbers for the period 1<sup>st</sup> January 2006 to 4<sup>th</sup> September 2006) are given. These 2006 normalised numbers also include a comparable rent charge equal to the incremental rent charge of £3.4m incurred in 2007 from the sale and lease back transaction. All results presented on a normalised basis exclude non recurring exceptionals.

#### **Key Highlights**

During the year the financial position of the Company improved. The principal key highlights for the year to 31<sup>st</sup> December 2007 on a normalised basis are summarised below:

- **Good revenue growth in UK** - *up 20%*  
- *London very strong, up 32%*  
- *rooms sold up 14% to 5.5million*
- **Increased occupancy in Spain** - *up 15 points*
- **EBITDA<sup>(1)</sup> £55.8m** - *up 30%(2006:£42.8m)*
- **Strong cash generation** - *free cashflow conversion 60%<sup>(2)</sup>*  
- *year end cash at bank £54.8m*
- **New hotel development** - *opened 23 hotels (2,453 rooms)*  
- *currently building 24 hotels(2,389 rooms)*  
- *secured planning 39 hotels (3,861 rooms)*  
- *pipeline of 200 sites (17,500 rooms)*

(1) Earnings before interest, tax, depreciation and amortisation and before IAS 17 non cash rent accounting change.

(2) Free cashflow conversion represents percentage conversion of EBITDA into cashflow after funding all capital expenditure requirements (both normal maintenance and development) but before financing costs, exceptionals and disposals.

**TRAVELODGE LIMITED**  
**DIRECTORS REPORT AND FINANCIAL REVIEW**

**Travelodge Results – Before Exceptionals**

The results for the year on a normalised and reported basis are summarised below:

	<u>2007</u>	<u>2006</u>	<u>Growth</u>
	£m	£m	%
<b>Revenue</b>	<b>243.8</b>	<b>203.5</b>	<b>20%</b>
EBITDAR <sup>(1)</sup>	116.0	93.4	24%
Net rent excluding 2007 sale & leaseback <sup>(2)</sup>	(56.8)	(47.2)	-20%
Rent from 2007 sale & leaseback <sup>(3)</sup>	(3.4)	-	-
Proforma rent from 2007 sale & leaseback <sup>(4)</sup>	-	(3.4)	-
Actual/normalised net rent	(60.2)	(50.6)	-19%
<b>Actual/normalised EBITDA</b>	<b>55.8</b>	<b>42.8</b>	<b>30%</b>
Add back proforma rent from sale&leaseback	-	3.4	
Proforma EBITDA	-	46.2	
Less pre acquisition EBITDA <sup>(5)</sup>	-	(29.2)	
IAS 17 non cash rent charge <sup>(6)</sup>	(7.5)	(3.1)	
Depreciation <sup>(7)</sup>	(15.6)	(4.3)	
Amortisation of intangibles <sup>(7)</sup>	(12.1)	(3.6)	
<b>Reported Operating Profit</b>	<b>20.6</b>	<b>6.0</b>	

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

(2) Net rent represents net external cash rent payable.

(3) Rent from sale and leaseback transaction represents the incremental rent charged to the Income Statement resulting from the sale and leaseback transaction entered into on 21<sup>st</sup> April 2007.

(4) Proforma rent from sale and leaseback transaction represents a proforma charge to 2006 results equal to the actual charge in 2007 results to show comparable EBITDA.

(5) EBITDA from 1<sup>st</sup> January 2006 to 4<sup>th</sup> of September 2006, before IAS 17 non cash accounting charge.

(6) The IAS 17 non cash accounting charge in 2006 is for the period from 5<sup>th</sup> of September 2006 to 31<sup>st</sup> of December 2006. The IAS 17 non cash accounting charge in 2007 is for the full 12 month period to 31<sup>st</sup> December 2007.

(7) The charge in 2006 represents the period from 5<sup>th</sup> of September 2006 to 31<sup>st</sup> of December 2006. The charge in 2007 is for the full 12 month period to 31<sup>st</sup> December 2007.

The normalised results for the year can be further analysed as follows:

	<u>2007</u>	<u>2006</u>	<u>Growth</u>
	£m	£m	%
<b>Revenue -UK</b>	<b>241.0</b>	201.2	20%
- Spain	2.3	1.8	29%
- Ireland	0.5	0.5	10%
	<b>243.8</b>	<b>203.5</b>	<b>20%</b>
<b>EBITDA -UK</b>	<b>55.7</b>	43.1	29%
- Spain	(0.4)	(0.8)	50%
- Ireland	0.5	0.5	10%
	<b>55.8</b>	<b>42.8</b>	<b>30%</b>

**TRAVELODGE LIMITED**  
**DIRECTORS REPORT AND FINANCIAL REVIEW**

Normalised sales for Travelodge UK increased 20% to £241.0m – mainly due to very strong volume growth with rooms sold increasing 14% to 5.5million (2006: 4.8million) and average price increases held to broadly in line with inflation of 3%. Key trading statistics for Travelodge UK, on a normalised basis, are given below:

	<u>2007</u>	<u>2006</u>	<u>Growth</u>
Rooms sold (million)	<b>5.5</b>	4.8	14%
Occupancy (%)	<b>77%</b>	77%	-
Rate (£)	<b>39.7</b>	38.5	3%
Rev PAR (£)	<b>30.6</b>	29.8	3%

Normalised EBITDA increased by £13.0m (30%) to £55.8m

New hotels opened in 2007 and maturing hotels opened in 2006, together contributed incremental EBITDA of £7.4m. Good cost control in mature hotels, mainly focused on cleaning efficiencies, offset RPI linked rent increases in those hotels, allowing full conversion to EBITDA of average rate growth - which generated £5.2m. Losses in Spain were reduced from £0.8m to £0.4m as a result of significant occupancy improvements of 15 points.

The Company opened 2,453 new rooms (23 hotels), including London City Road (392 rooms), Heathrow Terminal 5 (297 rooms), Eastbourne (90 rooms), Windsor (114 rooms), Sunbury (131 rooms) and Edinburgh Haymarket (55 rooms). This is summarised below:

	<u>Owned</u>					<u>Franchised</u>			<u>Total</u>
	<u>London</u>	<u>City/ Town</u>	<u>R'side M'Way</u>	<u>UK</u>	<u>Spain</u>	<u>Sub- Total</u>	<u>UK</u>	<u>Ireland</u>	
<b>No. Hotels</b>									
1 Jan 2007	<u>20</u>	<u>156</u>	<u>117</u>	<u>293</u>	<u>3</u>	<u>296</u>	<u>3</u>	<u>9</u>	<u>308</u>
Opened	<u>3</u>	<u>20</u>	<u>-</u>	<u>23</u>	<u>-</u>	<u>23</u>	<u>-</u>	<u>-</u>	<u>23</u>
31 Dec 2007	<u>23</u>	<u>176</u>	<u>117</u>	<u>316</u>	<u>3</u>	<u>319</u>	<u>3</u>	<u>9</u>	<u>331</u>
<b>No. Rooms</b>									
1 Jan 2007	<u>2,891</u>	<u>10,512</u>	<u>5,484</u>	<u>18,887</u>	<u>236</u>	<u>19,123</u>	<u>173</u>	<u>625</u>	<u>19,921</u>
Opened	<u>758</u>	<u>1,635</u>	<u>60</u>	<u>2,453</u>	<u>-</u>	<u>2,453</u>	<u>-</u>	<u>-</u>	<u>2,453</u>
31 Dec 2007	<u>3,649</u>	<u>12,147</u>	<u>5,544</u>	<u>21,340</u>	<u>236</u>	<u>21,576</u>	<u>173</u>	<u>625</u>	<u>22,374</u>

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At 31<sup>st</sup> December 2007, Travelodge's share of the total UK accommodation market (measured by Melvin Gold report, December 2007) was 3%. The Company is on track to operate from 35,000 rooms in the UK by 2010, which would represent only 5% of the projected total accommodation market at that date – and is confident of further long term growth.

The Company plans to open around 3,500 new rooms (40 hotels) in 2008 and during 2007 good progress was made growing and securing the pipeline, which currently stands at 17,500 rooms (200 specifically identified hotels). We are currently building 24 new hotels (2,389 rooms) including London Southwark (201 rooms), Heathrow Central (307 rooms), Tower of London (193 rooms), London Euston (150 rooms), Blackpool South Shore (124 rooms), Glasgow Braehead (99 rooms) and Birmingham Newhall Square (100 rooms). The Company has also secured planning permission and exchanged contracts on a further 39 hotels (3,861 rooms). All new hotels are forward funded with developers/landlords funding the build cost and land acquisition costs which are subsequently rentalised into an industry standard operating lease.

Normalised net rent charged increased by £9.6m (19%) as follows:-

	<b>£m</b>
<b>Normalised 2006 net rent charged<sup>(1)</sup></b>	<b>50.6</b>
- Annualisation 2006 new openings	5.1
- 2007 new openings	2.3
- Fully mature hotels	2.2
Increase	9.6
<b>2007 net rent charged<sup>(1)</sup></b>	<b>60.2</b>

*(1) Net rent represents net external cash rent payable, including a normalised adjustment in 2006 of £3.4m and is exclusive of IAS17 non cash rent charge.*

The average cash rent increase experienced during the year from fully mature hotels was 3%.

**Reported Results for the Year**

The following table analyses the reported results for the year:

	<b>2007<sup>(1)</sup></b>	<b>2006<sup>(2)</sup></b>
	£m	£m
Operating profit	20.6	6.0
Exceptionals	(2.6)	(0.7)
Profit on disposal of fixed assets	3.4	-
Finance costs (net)	(84.6)	(27.5)
<b>Loss Before Tax</b>	<b>(63.2)</b>	<b>(22.2)</b>

*(1) 12 months to 31<sup>st</sup> December 2007*

*(2) Post acquisition period from 5<sup>th</sup> September 2006 to 31<sup>st</sup> December 2006*

## TRAVELODGE LIMITED DIRECTORS REPORT AND FINANCIAL REVIEW

### Exceptionals

The reported results include exceptional costs reported within operating profit of £2.6m, mainly comprising a payment of £1.9m relating to the cancellation of an historic supply contract and £0.6m of further costs in relation to the acquisition of TLLC Group Holdings Ltd.

### Profit On Disposal of Fixed Assets

The reported results include a profit on disposal of fixed assets of £3.4m, of which £3.2m is related to the sale and immediate leaseback of 17 hotels, with gross proceeds of £127.5m, transaction costs of £4.6m and net book value of assets disposed of £111.8m. The Directors, having taken appropriate advice, have determined that the gross proceeds received exceeded the fair value of the assets disposed by £7.9m and, therefore, in accordance with IAS 17, the amount of profit which is deemed to be in excess of fair value has been deferred and will be amortised to the Income Statement over the term of the leases.

### Reported Investment Revenue and Finance Costs

The reported results are after net interest costs (finance costs and net investment revenue) of £84.6m which comprise:

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	<u>£m</u>
Interest received on cash	(2.4)
Interest charged on borrowings <sup>(1)</sup>	57.1
Interest charged on Eurobond	32.6
<b>Before exceptionals</b>	<b>87.3</b>
Exceptionals <sup>(2)</sup>	(2.7)
<b>Reported</b>	<b><u>84.6</u></b>

<sup>(1)</sup> Comprises interest on bank and other loans, finance fees, interest on finance leases, amortisation of debt issue costs and unwinding of discounts on provisions.

<sup>(2)</sup> Relates to income from the termination of certain interest swap contracts.

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### Taxation

No charge for UK corporation tax has been made due to tax losses in the year.

### Operating Leases

The Company's hotels are mainly held under operating leases which are not regarded as debt for accounting purposes. 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 upwards only rent reviews usually based on RPI indices (though some have fixed uplift rent reviews mainly during years one to five until the first rent review (fixed at 2.5%p.a) and subsequently to RPI) with Company only renewal rights at the end of the lease.

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At the balance sheet date, the Company had an annual minimum net rental commitment of £72.6m (net of £4.0m of rent receivable). The total future net rental commitment at the balance sheet date was circa £2.0bn with the leases having an average life of 25 years. The net present value of these commitments is approximately £0.6bn.

Although large, these figures are characteristic of lease financing and the risks associated with them depend upon liquidity, which is mainly influenced by the quality and location of the site and the underlying volatility of the earnings stream. The Directors have considered both these potential risks and consider them satisfactory

**Interest Rate Risk**

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

**Normalised Rent Cover**

The principal measure of the Company's financial strength is rent cover, which represents the number of times rental costs, excluding IAS 17 non cash rent, are covered by EBITDAR. Rent was covered by EBITDAR at 1.93x in 2007. The prior year comparable rent cover, after including a normalised adjustment of £3.4m equivalent to the incremental rent charge incurred in 2007 resulting from the sale & leaseback transactions entered into on 21<sup>st</sup> April 2007, was 1.85x. The Directors consider that these ratios, at this stage of the Company's growth cycle, are satisfactory.

**Normalised Trading Cashflow**

EBITDA from the Travelodge brand converted to trading cash flow (after maintenance capital expenditure) at 84% (2006: 71%) and, after all capital expenditure (including development capital expenditure on new hotels) at 60% (2006: 25%). This is summarised below:

	<u>2007</u>	<u>2006</u>
	£m	£m
Normalised EBITDA	55.8	42.8
Movement in Working Capital	7.6	(1.7)
Maintenance Capex <sup>(1)</sup>	<u>(16.7)</u>	<u>(10.8)</u>
<b>Normalised Trading Cashflow</b> <sup>(2)</sup>	<b>46.7</b>	<b>30.3</b>
Development Capex <sup>(3)</sup>	<u>(13.0)</u>	<u>(19.6)</u>
<b>Normalised Free Cashflow before Interest</b>	<b><u>33.7</u></b>	<b><u>10.7</u></b>
Add back proforma rent from 2007 sale & leaseback		<u>3.4</u>
<b>Proforma Free Cashflow</b>		<b><u>14.1</u></b>
<i>Conversion of EBITDA to Cashflow</i>		
- trading cash flow	84%	71%
- free cash flow before interest costs	<b><u>60%</u></b>	<b><u>25%</u></b>

<sup>(1)</sup> Maintenance capex principally represents expenditure on all hotels once open.

<sup>(2)</sup> Normalised trading cash flow represents cashflow before development capital expenditure and interest costs for the full 12 month period to 31<sup>st</sup> December 2007 and 31<sup>st</sup> December 2006, excluding discontinueds and exceptionals.

<sup>(3)</sup> Development capex principally includes expenditure on fixtures and fittings in new hotels.

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The working capital cash inflow of £7.6m predominantly reflected the introduction of requiring payment for a room at the time of booking rather than at the time of arrival at hotel. This policy was introduced in Spring 2007 and (similar to budget airlines and most contemporary online retailers) has simplified and speeded up the check in process for customers. At 31 December 2007, the Company had £12.0m of cash advances included within its cash balance – with an average cash balance during the year of around £13.0m. Cash spend against provisions of £3.9m (mainly rent on non-hotel vacant properties) was offset by other working capital efficiencies resulting from increased number of hotels. The working capital cash outflow of £1.7m in the prior year mainly reflected spend against provisions and settlement of historical utility costs.

Maintenance capex of £16.7m (2006: £10.8m) mainly reflected an acceleration of the Company's refit strategy, rollout of flat screen TV's and roll out of wifi internet access. Development capex was £13.0m (2006: £19.6m) and was lower than the prior year - mainly due to the cost of converting an historical long lease property into a 184 room Travelodge (which opened in July 2006). Development capex was predominately related to spend on fixtures, fittings and fees on new hotels where the hotel is funded by the developer/landlord with costs subsequently rentalised.

**Reported Cashflow**

Reported cashflow and total movement in cash is summarised below:

	<u>2007</u>
	£m
<b>Normalised Free Cash Flow before interest costs</b>	<b>33.7</b>
Net interest costs paid	(29.7)
Exceptionals	(11.7)
Net cash received from disposal of fixed assets	<u>124.8</u>
<b>Net Increase in Cash</b>	<b><u>117.1</u></b>
<b>Opening Cash</b>	<b><u>19.8</u></b>
Net Increase in Cash	117.1
Facility draw down/issue new shares	13.1
Early repayment of debt	<u>(95.2)</u>
<b>Closing Cash</b>	<b><u>54.8</u></b>

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**DIRECTORS REPORT AND FINANCIAL REVIEW**

Exceptionals included cash spend on transaction costs relating to the acquisition of TLLC Group Holdings Ltd in September 2006 (of £10.3m), redundancy and closure costs relating to the exit of Regent Palace Hotel in January 2007 (of £1.8m) and a payment made to effect early termination from an historical, onerous contract.

Net cash received from disposal of fixed assets predominantly relates to the sale and leaseback transaction the Company entered into on 21<sup>st</sup> April 2007- whereby 17 hotels, held under long leasehold agreements, were sold and subsequently leased back. The transaction was fully completed by 6<sup>th</sup> September 2007 and raised gross consideration of £127.5m with transaction costs of £4.6m.

**Funding**

The Company is funded by cash, bank debt, a Eurobond note, six properties held under finance leases and operating leases. The bank debt and Eurobond note have 'bullet' repayment profiles and are long term in nature. The repayment profile summarised below:-

	<b>Dec 07</b>
	<b>£m</b>
Repayable in future year:-	
Within 1 year	-
Within 1-2 years	-
Within 3-5 years	14.1
Within 6-7 years	140.4
7+ years	<u>522.4</u>
<b>Gross bank debt and Eurobond<sup>(1)</sup></b>	<b>676.9</b>
Finance lease	27.4
Cash	<u>(54.8)</u>
<b>Net funding</b>	<b><u>649.5</u></b>

<sup>(1)</sup> Excluding £11.7m of unamortised issue costs

At the balance sheet date the Company had, available, unused uncommitted facilities of £39.9m. The Directors have considered the level of funding, debt repayment profile and liquidity and consider them satisfactory when taking into account the Company's growth profile and secure pipeline of new hotels.

**TRAVELODGE LIMITED**  
**DIRECTORS REPORT AND FINANCIAL REVIEW**

**Balance Sheet**

The balance sheet is summarised as follows:-

	<b>Dec 07</b>
	£m
Fixed assets	82.4
Trading working capital	(48.8)
Net non trading balances <sup>(1)</sup>	(32.3)
Deferred tax liability	(61.3)
Goodwill and intangibles	649.8
<b>Operating net assets</b>	<b>589.8</b>
Cash	54.8
Bank debt <sup>(2)</sup>	(439.0)
Eurobond	(226.2)
Finance Lease creditor	(27.4)
<b>Net Liabilities</b>	<b>(48.0)</b>

*(1) Non trading balances mainly include provisions (£13.4m), IAS 17 non cash rent accounting creditor (£9.5m), deferred income resulting from sale and leaseback transaction (£7.9m) and net financial derivative liability (£1.5m).*

*(2) Bank debt is net of £11.7m unamortised issue costs.*

**Provisions**

Provisions of £13.4m include £11.5m for rent liabilities on 39 vacant restaurant units (with annual rent liability of £1.5m and average lease term remaining of 28 years), £0.9m principally for rent liabilities on certain historical onerous hotel leases and £1.0m represented by a net rent liability on the Company's previous offices (which have been sub-let at the passing rent for a term less than the full term remaining on the lease).

**Pensions**

The Company offers a defined contribution scheme to its employees (by way of recommending a third party stakeholder scheme provided by Prudential Assurance Company Ltd) with amounts charged to the Income Statement equal to contributions paid in the year.

**Financing**

The use of financial instruments and hedging is carefully controlled and monitored by the Board - in line with the terms and conditions of the loan facilities. At the balance sheet date, swaps had been entered into, to achieve a fixed rate on variable interest debt, with a nominal value of £282.4m compared to £400.1m of gross bank debt (representing 71% of that debt). The fair value of the swaps on 31<sup>st</sup> December 2007 was £1.5m lower than the value of the debt and the difference was recognised as a liability on the balance sheet. All the swaps expire within 2 years.

**TRAVELODGE LIMITED**  
**DIRECTORS REPORT AND FINANCIAL REVIEW**

**Currency**

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

**Proposed Dividend**

The Directors do not recommend the payment of a dividend.

**Insurance**

The Company maintains insurance in respect of the directors and officers against any such liabilities as are referred to in Section 325 of the Companies Act 1985.

**Donations**

The charitable donations made by the Company and charged in the accounts were £2,500 (2006: £6,820). There were no political donations made during the period (2006: £nil).

**Disabled Persons**

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

**TRAVELODGE LIMITED**  
**DIRECTORS AND THEIR INTERESTS**

The directors who served during the year were as follows:-

Keith Hamill (Chairman)  
Sameer Kamal Ibrahim Al Ansari  
Claude Sylvain Denis  
Paul Harvey  
Grant Hearn  
Anand Krishnan  
Jon Mortimore  
Guy Parsons

The beneficial interests of the directors and their families in the ordinary shares of the Company are set out below:-

	<u>At 31 Dec 2007</u>	<u>At 31 Dec 2006</u>
	'B Shares'	'B Shares'
Keith Hamill	60,000	60,000
Paul Harvey	60,000	-
Grant Hearn	120,000	120,000
Jon Mortimore	100,000	100,000
Guy Parsons	95,000	95,000

No Director has a material interest, directly or indirectly, at any time during the period in any contract significant to the business in the Company or any other Group Company other than the above.

**Employee Involvement**

The Company is an equal opportunity employer and is committed to ensuring no employee or applicant is treated less favourably on the grounds of race, religion, ethnic origin, age, disability or sexual orientation. Employees are encouraged to become members of the stakeholder pension scheme.

**TRAVELODGE LIMITED  
DIRECTORS REPORT AND FINANCIAL REVIEW**

**Auditors**

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

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

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

During the year the Directors reappointed Deloitte & Touche LLP as auditors of the Company.

Approved by The Board of Directors  
And signed on behalf of The Board

A handwritten signature in black ink, appearing to be 'Jon Mortimore', written in a cursive style.

Jon Mortimore  
Secretary  
26 February 2008

## **TRAVELODGE LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to be properly prepared in accordance with IFRSs as adopted by the European Union and the Companies Act 1985.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TRAVELODGE LIMITED**

We have audited the group and parent company financial statements (the 'financial statements') of Travelodge Limited for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated and individual company balance sheets, the consolidated and individual company cash flow statements, and the related notes 1 to 41. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' report only. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the annual report.

### **BASIS OF AUDIT OPINION**

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

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

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TRAVELODGE LIMITED

### OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's and the parent company's affairs as at 31 December 2007 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors report is consistent with the financial statements.

### Separate opinion in relation to IFRSs

As explained in note 2 to the group financial statements, the group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. In our opinion the group financial statements give a true and fair view, in accordance with IFRSs, of the state of the group's affairs as at 31 December 2007 and of its loss for the year then ended.

*Deloitte + Touche LLP*

### **Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors

London, United Kingdom

26 February 2008

**TRAVELODGE LIMITED**

**CONSOLIDATED INCOME STATEMENT**

**For the year ended 31 December 2007**

	Notes	Year ended 31 December 2007			Period ended 31 December 2006 <sup>1</sup>		
		Before exceptional items £m	Exceptional items (note 9) £m	After exceptional items £m	Before exceptional items £m	Exceptional items (note 9) £m	After exceptional items £m
<b>Revenue</b>	5	<b>243.8</b>	-	<b>243.8</b>	68.5	-	<b>68.5</b>
<b>Operating profit / (loss)</b>	5	20.6	(2.6)	<b>18.0</b>	6.0	(0.7)	<b>5.3</b>
EBITDAR <sup>2</sup>	5/10	116.0	(2.6)	<b>113.4</b>	32.8	(0.7)	<b>32.1</b>
Net external cash rent payable	10	(60.2)	-	<b>(60.2)</b>	(15.8)	-	<b>(15.8)</b>
EBITDA <sup>3</sup> (before IAS 17 non-cash rent)		55.8	(2.6)	<b>53.2</b>	17.0	(0.7)	<b>16.3</b>
IAS 17 non-cash rent	10	(7.5)	-	<b>(7.5)</b>	(3.1)	-	<b>(3.1)</b>
EBITDA <sup>3</sup>		48.3	(2.6)	<b>45.7</b>	13.9	(0.7)	<b>13.2</b>
Depreciation	10	(15.6)	-	<b>(15.6)</b>	(4.3)	-	<b>(4.3)</b>
Amortisation	10	(12.1)	-	<b>(12.1)</b>	(3.6)	-	<b>(3.6)</b>
Operating profit / (loss)	5/10	20.6	(2.6)	<b>18.0</b>	6.0	(0.7)	<b>5.3</b>
Profit on disposal of fixed assets	12	-	3.4	<b>3.4</b>	-	-	-
Investment revenue	14	2.4	-	<b>2.4</b>	0.5	-	<b>0.5</b>
Finance costs	15	(89.7)	2.7	<b>(87.0)</b>	(28.0)	-	<b>(28.0)</b>
<b>(Loss) / profit before tax</b>		<b>(66.7)</b>	<b>3.5</b>	<b>(63.2)</b>	<b>(21.5)</b>	<b>(0.7)</b>	<b>(22.2)</b>
Tax credit	16	31.0	4.4	<b>35.4</b>	0.6	-	<b>0.6</b>
<b>(Loss) / profit for the year</b>		<b>(35.7)</b>	<b>7.9</b>	<b>(27.8)</b>	<b>(20.9)</b>	<b>(0.7)</b>	<b>(21.6)</b>

1 - The acquisition of the operating subsidiaries became unconditional on 5 September 2006 and therefore the Company statutory income statement for 2006 includes 118 days of trading.

2 - Earnings before interest, tax, depreciation, amortisation and net rent.

3 - Earnings before interest, tax, depreciation and amortisation.

**TRAVELODGE LIMITED****CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE****For the year ended 31 December 2007**

	<b>Year ended 31 December 2007</b>	Period ended 31 December 2006 <sup>1</sup>
	<b>£m</b>	£m
Movement on fair value of cashflow hedges	(2.2)	0.7
Deferred tax on hedging derivatives taken to equity	0.6	(0.2)
<b>Net (loss)/gain recognised directly in equity</b>	<b>(1.6)</b>	<b>0.5</b>
Loss for the year recognised directly in the income statement	(27.8)	(21.6)
<b>Total recognised expense for the year</b>	<b>(29.4)</b>	<b>(21.1)</b>

*1 - The acquisition of the operating subsidiaries became unconditional on 5 September 2006 and therefore the Company statutory statement of recognised income and expense for 2006 includes 118 days of trading.*

**TRAVELODGE LIMITED**


**CONSOLIDATED BALANCE SHEET**

As at 31 December 2007

	Notes	2007 £m	2006 £m
<b>NON CURRENT ASSETS</b>			
Goodwill	19	276.9	276.9
Other intangible assets	20	372.9	366.5
Property, plant and equipment	21	82.4	195.2
		<u>732.2</u>	<u>838.6</u>
<b>CURRENT ASSETS</b>			
Stocks	22	0.7	0.5
Trade and other receivables	23	28.9	26.7
Financial derivative asset	27	-	0.7
Cash and cash equivalents	27	54.8	19.8
		<u>84.4</u>	<u>47.7</u>
Assets classified as held for sale	17	-	0.9
<b>TOTAL ASSETS</b>		<u><b>816.6</b></u>	<u><b>887.2</b></u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	24	(85.5)	(58.2)
Financial derivative liability	27	(1.5)	-
Liabilities associated with assets held for sale	17	-	(2.9)
		<u>(87.0)</u>	<u>(61.1)</u>
<b>NON-CURRENT LIABILITIES</b>			
Bank loans	27	(439.0)	(506.4)
Eurobond	27	(226.2)	(193.6)
Obligations under finance leases	26	(27.4)	(26.9)
Deferred tax liability	28	(61.3)	(97.3)
Deferred income	25	(10.3)	(2.3)
Provisions	29	(13.4)	(18.3)
		<u>(777.6)</u>	<u>(844.8)</u>
<b>TOTAL LIABILITIES</b>		<u><b>(864.6)</b></u>	<u><b>(905.9)</b></u>
<b>NET LIABILITIES</b>		<u><b>(48.0)</b></u>	<u><b>(18.7)</b></u>
<b>EQUITY</b>			
Share capital	30	2.5	2.4
Hedging reserve	31	(0.9)	0.7
Retained deficit	31	(49.6)	(21.8)
<b>TOTAL DEFICIT</b>		<u><b>(48.0)</b></u>	<u><b>(18.7)</b></u>

<b>Memorandum - Analysis of net debt</b>		£m	£m
Cash at bank		54.8	19.8
Bank debt redeemable in:			
	- 1 - 2 years	-	-
	- 2 - 5 years	(14.1)	(4.8)
	- 5 - 7 years	(140.4)	(84.6)
	- 7 years plus	(296.2)	(430.2)
	- Unamortised issue costs	11.7	13.2
		<u>(439.0)</u>	<u>(506.4)</u>
Eurobond redeemable in:			
	- 7 years plus	(226.2)	(193.6)
Finance leases		(27.4)	(26.9)
<b>Net debt</b>		<u><b>(637.8)</b></u>	<u><b>(707.1)</b></u>

These financial statements were approved by the Board of Directors and signed on its behalf by

  
 Jon Mortimore  
 Director  
 26 February 2008

TRAVELODGE LIMITED

CONSOLIDATED CASH FLOW STATEMENT  
For the year ended 31 December 2007

	Notes	Year ended 31 December 2007 £m	Period ended 31 December 2006 £m
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	35	<b>27.2</b>	<b>(6.6)</b>
<b>INVESTING ACTIVITIES</b>			
Interest received	14	2.4	0.5
Proceeds on disposal of property, plant and equipment		124.8	-
Purchases of property, plant and equipment and other intangible assets	20 / 21	(29.7)	(9.2)
Acquisition of subsidiary		(10.3)	(289.7)
Cash acquired on acquisition		-	10.1
<b>Net cash used in investing activities</b>		<b>87.2</b>	<b>(288.3)</b>
<b>FINANCING ACTIVITIES</b>			
Repayments of borrowings	27	(95.0)	(363.6)
Scheduled amortisation of debt	27	(0.2)	-
Proceeds on issue of shares	30	0.1	2.4
Proceeds on issue of Eurobond		-	183.5
Issue of new bank debt	27	13.0	515.7
Finance issue costs		-	(23.0)
Proceeds on termination of swap contracts	9	2.7	-
Repayments of obligations under finance leases		-	(0.3)
<b>Net cash from financing activities</b>		<b>(79.4)</b>	<b>314.7</b>
<b>Net increase in aggregate cash and cash equivalents</b>		<b>35.0</b>	<b>19.8</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>19.8</b>	<b>-</b>
<b>Cash and cash equivalents at end of year</b>		<b>54.8</b>	<b>19.8</b>

<i>Memorandum - Analysis of free cashflow</i>	Year ended 31 December 2007 £m	<i>Proforma</i> Period ended 31 December 2006 £m
<i>EBITDA before exceptional items</i>	55.8	46.2
<i>Working capital</i> - trading	11.5	(0.3)
- cash spend on provisions	(3.9)	(1.4)
<i>Capital expenditure</i>	(29.7)	(30.4)
<b>Trading cashflow for the 12 months ending 31 December</b>	<b>33.7</b>	<b>14.1</b>
<i>Less: pre-acquisition trading cashflow for the period 1 January 2006 to 4 September 2006</i>	-	(15.5)
<b>Reported Trading cashflow</b>	<b>33.7</b>	<b>(1.4)</b>
<b>Non-trading cash flow</b>		
<i>Interest costs paid</i>	(29.7)	(9.8)
<i>Exceptional items</i>	(11.7)	(0.7)
<i>Proceeds on disposal of fixed assets</i>	124.8	(0.6)
<i>Repayment of borrowings</i>	(95.2)	-
<i>Issue of new bank debt / shares</i>	13.1	-
<i>Discontinued cashflows</i>	-	(3.7)
<b>Free cash flows before fund raising and acquisition</b>	<b>35.0</b>	<b>(15.6)</b>
<i>Net cashflow from acquisition</i>	-	35.4
<b>Cash generated</b>	<b>35.0</b>	<b>19.8</b>
<b>Opening net financing</b>	<b>(707.1)</b>	<b>-</b>
<i>Cash generated</i>	35.0	19.8
<i>Issue of new bank debt &amp; loan notes<sup>1</sup></i>	(13.0)	(699.2)
<i>Finance leases acquired on acquisition</i>	-	(27.2)
<i>Fees amortised / capitalised into debt</i>	(1.5)	13.2
<i>Repayment of commercial mortgage</i>	95.2	-
<i>Non-cash movements<sup>2</sup></i>	(46.4)	(13.7)
<b>Closing net financing</b>	<b>(637.8)</b>	<b>(707.1)</b>

1 - Issue of new bank debt and loan notes in 2006 includes £515.7m on issue of bank debt and £183.5m on issue of the Eurobond.

2 - Non-cash movements includes interest accrued into principle £(45.9)m (2006: £(14.0)m) and accrued finance lease interest of £(0.5)m (2006: £0.3m).

## TRAVELODGE LIMITED

### NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

#### 1 GENERAL INFORMATION

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Travelodge Limited (the Company) is a limited company and was incorporated in the United Kingdom on 2 August 2006. The address of its registered office and principal place of business are disclosed in the introduction to the annual report. The principal activities of the Company and its subsidiaries are disclosed in the Directors' report.

At the date of authorisation of these financial statements, the standards and interpretations which have not been applied in these financial statements but were in issue but not yet effective are IFRS 8, Operating Segments, IFRIC 11, application of IFRS 2 Group and Treasury share transactions, IFRIC 12, Service concession arrangements, IFRIC 13, Customer loyalty programmes and IFRIC 14, IAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The Directors anticipate that the adoption of these standards and interpretations in future years will have no historical impact on the financial statements of the Company where the relevant standards come into effect for periods commencing on or after 1 January 2007.

#### 2 SIGNIFICANT ACCOUNTING POLICIES

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##### **Basis of Accounting**

In the current year, the Company has adopted IFRS7, Financial Instruments: Disclosures, which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1, Presentation of Financial Statements. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Company's financial instruments and management of capital (see note 27). Four interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies; IFRIC 8, Scope of IFRS2; IFRIC 9, Reassessment of Embedded Derivatives; and IFRIC 10 Interim Financial Reporting and Impairment. The adoption of these Interpretations has not led to any changes in the Company's accounting policies.

The financial statements have been prepared in accordance with IFRS as adopted by the European Union and IFRS as issued by the International Accounting Standards Board at 31 December 2007 and applicable United Kingdom law.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted have been consistently applied throughout the year and are set out below.

##### **Basis of consolidation**

The consolidated financial statements consolidate the financial statements of the Company and entities controlled by the Company and its subsidiaries made up to 31 December 2007. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or disposal, as appropriate.

All intra-group transaction balances, income and expenses are eliminated on consolidation.

##### **Business combinations**

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, Business Combinations, are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, Non-current assets held for sale and discontinued operations, which are recognised and measured at fair value less costs to sell.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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**Goodwill**

Goodwill arising on the acquisition of a subsidiary 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 of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent year.

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

**Non-current assets held for sale**

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and the fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset (or disposal group) is available for immediate sale in its present condition and management expect to complete the sale within one year from the date of classification.

**Revenue recognition**

Revenue is measured at fair value of the consideration received or receivable and represents the amount receivable for goods and services supplied to customers in the normal course of business, net of VAT. The principal revenue stream of the Company is providing low cost hotel accommodation.

**Leasing**

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.

Minimum rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease. Incentives received by the Company to enter into leases as a lessee are credited to the income statement on a straight line basis over the lease term.

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

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

**Foreign currencies**

Assets and liabilities denominated in foreign currencies are translated into sterling at rates prevailing at the balance sheet date. Income statement items denominated in foreign currencies are translated at the rates of exchange prevailing on the dates of the transactions.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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**Taxation**

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

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

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

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

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

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

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

**Intangible assets**

Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably.

**Lease premiums**

Values attributed to lease premiums include those values attributed to those hotels in the UK which were open and operational or under construction at the time of the acquisition of the Travelodge business. The values attributed are amortised on a straight line basis over the length of each lease. Values of interests in hotels held under operating leaseholds have been attributed by estimating the present value of the net cash flows expected to be received over the lives of the lease agreements. The resulting cash flow was discounted back to the date of acquisition using the Company's post-tax weighted average cost of capital.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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***Brand and trademark***

The brand name acquired through the acquisition of the Travelodge business has been assigned a fair market value at the date of acquisition. The value for the brand name was derived by estimating the amount of royalty income that could be generated from the brand name if it was owned by an independent third-party. The resulting cash flow was discounted back to the acquisition date using the Company's post-tax weighted average cost of capital. The Company considers the value of the brand name, which was first introduced into the UK in 1985, and was first introduced into the US in 1958 will be maintained almost indefinitely and is therefore not amortised. The Company supports the value of the brand name through investment in consumer marketing and advertising, public relations and hotel maintenance and refurbishment across the business. The value of the brand name is reviewed annually for impairment.

***Franchise fee contracts***

The franchise fee agreements acquired through the acquisition of the Travelodge business have been assigned a fair market value. The value for the franchise fee agreements was derived by estimating the amount of income that could be generated from the franchise fee agreements over the respective period of the agreements. The resulting cash flow was discounted back to the acquisition date using the Company's post-tax weighted average cost of capital. The value of the franchise fee agreements is amortised on a straight line basis over the length of each of the franchise fee agreements.

***IT software***

IT software is measured initially at purchase cost and is amortised on a straight line basis over three to five years. The values attributed are reviewed for impairment if events or changes in circumstances indicate that their carrying value may be impaired.

**Property, plant and equipment**

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment.

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

- Freehold land is not depreciated.
- Freehold buildings are depreciated to their estimated residual values over periods up to fifty years.
- Leasehold buildings are depreciated to their estimated residual values over fifty years or, where shorter, their remaining lease periods.
- Other assets are depreciated over ten to fifteen years for plant and machinery, long life fixtures, fittings, equipment and information technology hardware; and up to seven years for short life fixtures, fittings and equipment.
- Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

**Impairment of tangible and intangible assets excluding goodwill**

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

The recoverable amount is the higher of the fair value less costs to sell and value in use of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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**Impairment of tangible and intangible assets excluding goodwill (continued)**

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

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

**Stocks**

Stocks comprise food, bar stocks and hotel consumables and are stated at the lower of cost and net realisable value.

**Financial Instruments**

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

**Trade receivables**

Trade receivables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

**Cash and cash equivalents**

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

**Financial liabilities and equity**

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

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

**Finance costs**

Finance costs of debt are recognised in the income statement over the term of the debt at a constant rate on the carrying amount.

**Debt**

Interest-bearing bank loans, overdrafts and the Eurobond are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the income statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

**Trade payables**

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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*Derivative financial instruments and hedge accounting*

The Company's activities expose it primarily to the financial risks of changes in interest rates. The Company uses interest rate swap contracts to hedge these exposures. The Company does not use derivative financial instruments for speculative purposes.

The Company is not materially exposed to changes in foreign currency rates and does not use foreign exchange forward contracts.

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

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

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Interest hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedging transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with gains or losses reported in the income statement.

**Pension costs**

The Company offers, by way of recommending a third party stakeholder scheme with The Prudential Assurance Company Limited, a defined contribution scheme to its employees. The amount charged to the income statement for this scheme in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

**Provisions**

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

## TRAVELODGE LIMITED

### NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

#### 3 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTIES

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

##### **Goodwill and Intangible assets**

On 5th September 2006 the Company assigned fair market values to the Travelodge brand name, franchise fee agreements and lease premiums acquired through the acquisition of the Travelodge business. Goodwill arises on business combinations, including the acquisition of subsidiaries, when the cost of acquisition exceeds the fair value of the Company's share of the identifiable assets, liabilities and contingent liabilities acquired. Impairment testing is performed annually by comparing the present value of the expected future cash flows from the business with the carrying amount of its net assets, including attributable intangible assets and goodwill.

Significant judgement is involved in the process of identifying and evaluating intangible assets and goodwill and calculating any subsequent impairment, principally in the estimation of the future cash flows of the cash-generating units and the Company's post-tax weighted average cost of capital assigned to each cash generating unit. The Directors have considered the Company's financial projections and the assumptions which underpin those projections including future growth of the budget hotel sector, brand demand and occupancy, the new hotel opening profile and development pipeline opportunities. For the purposes of testing for intangible assets and goodwill impairment, growth rates are assumed to broadly follow the Retail Price Index beyond the life of the financial plan. After applying the Company's post-tax weighted average cost of capital to those financial projections and, after considering the sensitivity of the principal assumptions, the Directors do not believe goodwill or the other intangible assets recognised to be impaired.

##### **Onerous lease provisions**

The Company has provided for operating lease rentals, where these were above the market rate at acquisition or where the Company has subsequently vacated the property and rental income is less than the rental expense. The average lease term remaining on these properties is around 28 years (2006: 29 years). The element of the rental which is above market or above any rental income received relating to vacated properties, is charged against the provision. 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.

##### **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.

##### **Accounting for development contracts**

The Company typically does not fund or construct new hotel developments. Usually new hotels are built and paid for by the future landlord and the Company enters into an agreement for an industry standard operating lease on the hotel at market rent, usually for a term of 25 or 35 years. However, for some developments, under certain circumstances, the Company enters contractual arrangements with the future landlord and the building contractor, effectively acting as project manager. Through these contractual arrangements the Company avoids exposure to substantially all the development risk, and accordingly, the Directors have concluded that the substance of the transaction is that the Company is not acting as principal. In the year ended 31 December 2007 the Company managed 17 hotel developments (2006: 16) and made total payments of £27.2m (2006: £11.2m) to building contractors on behalf of future landlords.

**TRAVELODGE LIMITED**

**NOTES TO THE CONSOLIDATED ACCOUNTS**

For the year ended 31 December 2007

**4 PRESENTATION OF PROFORMA PROFIT AND LOSS ACCOUNT NOTES**

The acquisition of the operating subsidiaries became unconditional on 5 September 2006 and therefore the Company statutory profit and loss account for 2006 includes 118 days of trading.

The proforma information for the 12 months ended 31 December 2006 shown in notes 5, 7, 8 and 10 has been presented to illustrate the trading results of the Company as if the operating subsidiaries had been owned throughout the previous year.

**5 SEGMENTAL ANALYSIS OF RESULTS**

**Before exceptional items**

	Year ended 31 December 2007	Period to 31 December 2006	Proforma 12 months to 31 December 2006 <sup>1</sup>
	£m	£m	£m
<b>Revenue</b>			
Travelodge - UK	241.0	67.6	201.2
- Spain	2.3	0.7	1.8
- Ireland	0.5	0.2	0.5
	<b>243.8</b>	<b>68.5</b>	<b>203.5</b>
<b>EBITDAR<sup>2</sup></b>			
Travelodge - UK	114.8	32.5	92.6
- Spain	0.7	0.1	0.3
- Ireland	0.5	0.2	0.5
	<b>116.0</b>	<b>32.8</b>	<b>93.4</b>
<b>EBITDA (before IAS 17 non-cash rent)<sup>3</sup></b>			
Travelodge - UK	55.7	17.0	46.5
- Spain	(0.4)	(0.2)	(0.8)
- Ireland	0.5	0.2	0.5
	<b>55.8</b>	<b>17.0</b>	<b>46.2</b>
<b>EBITDA<sup>4</sup></b>			
Travelodge - UK	48.2	13.9	
- Spain	(0.4)	(0.2)	
- Ireland	0.5	0.2	
	<b>48.3</b>	<b>13.9</b>	
<b>Operating profit before exceptional items</b>			
Travelodge - UK	20.5	6.0	
- Spain	(0.4)	(0.2)	
- Ireland	0.5	0.2	
	<b>20.6</b>	<b>6.0</b>	
Exceptional items (note 9)	(2.6)	(0.7)	
	<b>18.0</b>	<b>5.3</b>	

*1 - Proforma figures for the 12 month period to 31 December 2006 are not given to operating profit but only to EBITDA (before IAS 17 non-cash rent) because the basis of the IAS 17 non-cash rent charge and amortisation charge differ materially between the periods as a result of the acquisition and subsequent fair value adjustments.*

*2 - Earnings before interest, tax, depreciation, amortisation and net rent.*

*3 - Earnings before interest, tax, depreciation, amortisation and IAS 17 non-cash rent charge. IAS 17 non-cash rent charge represents the adjustment required under IAS 17 for leases with fixed annual uplifts to produce an even charge over the length of the lease and does not allow the discounting of future payments to reflect the time value of money.*

*4 - Earnings before interest, tax, depreciation and amortisation.*

TRAVELODGE LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

6 SEGMENTAL ANALYSIS OF ASSETS AND LIABILITIES

		2007	2006
		£m	£m
<b>Assets</b>			
Goodwill		276.9	276.9
Other Intangible assets		372.9	366.5
Trading assets	-UK <sup>1</sup>	111.1	221.4
	-Spain <sup>2</sup>	0.9	1.0
	-Ireland	-	-
Non trading assets <sup>3</sup>		-	0.7
Discontinued operations		-	0.9
<b>Total operations</b>		<b>761.8</b>	<b>867.4</b>
Cash		54.8	19.8
<b>Total assets</b>		<b>816.6</b>	<b>887.2</b>
<b>Liabilities</b>			
Trading liabilities	-UK <sup>4</sup>	(87.4)	(72.6)
	-Spain <sup>5</sup>	(0.1)	(0.2)
	-Ireland	-	-
Non trading liabilities <sup>6</sup>		(84.5)	(103.3)
Discontinued operations		-	(2.9)
<b>Total operations</b>		<b>(172.0)</b>	<b>(179.0)</b>
Bank debt		(439.0)	(506.4)
Eurobond		(226.2)	(193.6)
Finance lease creditor		(27.4)	(26.9)
<b>Total liabilities</b>		<b>(864.6)</b>	<b>(905.9)</b>
<b>Net assets / liabilities</b>			
Goodwill		276.9	276.9
Other Intangible assets		372.9	366.5
Trading net assets	-UK	23.7	148.8
	-Spain	0.8	0.8
	-Ireland	-	-
Non trading net liabilities		(84.5)	(102.6)
Discontinued operations		-	(2.0)
<b>Total operations</b>		<b>589.8</b>	<b>688.4</b>
Cash		54.8	19.8
Bank debt		(439.0)	(506.4)
Eurobond		(226.2)	(193.6)
Finance lease creditor		(27.4)	(26.9)
<b>Net liabilities</b>		<b>(48.0)</b>	<b>(18.7)</b>

1 - Travelodge UK operating assets of £111.1m (2006: £221.4m) include £82.4m (2006: £195.2m) of fixed assets, £0.7m (2006: £0.5m) of stock, £7.7m (2006: £8.5m) of trade amounts receivable, £4.8m (2006: £1.5m) of other debtors, £15.5m (2006: £15.7m) of prepayments and accrued income.

2 - Travelodge Spain operating assets of £0.9m (2006: £1.0m) include £0.9m (2006: £1.0m) of other debtors.

3 - Travelodge non trading assets include £nil (2006: £0.7m) of financial derivative asset.

4 - Travelodge operating liabilities of £87.4m (2006: £72.6m) include £11.4m (2006: £2.5m) of deferred income, £13.4m (2006: £18.3m) of provisions, £22.7m (2006: £12.3m) of other creditors, £7.0m (2006: £2.9m) of taxation and other social security, £18.7m (2006: £17.9m) of trade creditors, £13.4m (2006: £9.6m) of capital creditors, £0.8m (2006: £9.1m) of transaction creditors.

5 - Travelodge Spain operating liabilities of £0.1m (2006: £0.2m) include £0.1m (2006: £0.2m) of other creditors.

6 - Travelodge non trading liabilities of £84.5m (2006: £103.3m) includes £9.5m (2006: £2.8m) IAS 17 accrued rent creditor, £12.2m (2006: £3.2m) of interest creditors, £61.3m (2006: £97.3m) of deferred tax and £1.5m (2006: £nil) of financial derivative liability.

**TRAVELODGE LIMITED**

**NOTES TO THE CONSOLIDATED ACCOUNTS**

**For the year ended 31 December 2007**

**7 REVENUE**

An analysis of the Company's total revenue for the year is as follows:

	Year ended 31 December 2007 £m	Period to 31 December 2006 £m	Proforma 12 months to 31 December 2006 £m
Revenue per income statement	243.8	68.5	203.5
Other income not included in revenue per income statement:			
Rent receivable (note 10)	3.8	1.4	4.2
Investment income (note 14)	2.4	0.5	1.1
<b>Total revenue</b>	<b>250.0</b>	<b>70.4</b>	<b>208.8</b>

**8 RENT COVER (before exceptional items)**

		Year ended 31 December 2007 £m	Period to 31 December 2006 £m	Proforma 12 months to 31 December 2006 £m
EBITDAR <sup>1</sup>	- UK	114.8	32.5	92.6
	- Spain	0.7	0.1	0.3
	- Ireland	0.5	0.2	0.5
		<b>116.0</b>	<b>32.8</b>	<b>93.4</b>
Net operating lease rent payable to third party landlords <sup>2</sup>	- UK	59.1	15.5	46.1
	- Spain	1.1	0.3	1.1
	- Ireland	-	-	-
		<b>60.2</b>	<b>15.8</b>	<b>47.2</b>
<b>Rent cover</b>		<i>times</i>	<i>times</i>	<i>times</i>
	- UK	<b>1.94 x</b>	<b>2.10 x</b>	<b>2.01 x</b>
	- Spain	<b>0.64 x</b>	<b>0.33 x</b>	<b>0.27 x</b>
	- Ireland	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
		<b>1.93 x</b>	<b>2.08 x</b>	<b>1.99 x</b>

In order to normalise the above figures a charge of £3.4m for the comparable period which is equal to the incremental rent charged in 2007 figures resulting from the sale and leaseback transaction entered into in the year would have to be made. This would result in normalised comparable rent increasing to £49.5m and the rent cover decreasing to 1.85 x.

1 - Earnings before interest, tax, depreciation, amortisation and net rent.

2 - Net operating lease rent charged excluding IAS 17 non-cash rent charge and amounts charged to provisions.

**9 EXCEPTIONAL ITEMS**

Exceptional items within operating profit of £2.6m (2006: £0.7m) include a payment of £1.9m in relation to the cancellation of an historic supply contract, £0.6m of further costs in relation to the acquisition of TLLC Group Holdings Limited in the previous year and other costs amounting to £0.1m.

The exceptional profit on disposal of fixed assets is described in note 12.

Exceptional items within finance costs of £2.7m (2006: £nil) consists of income from the exit of certain interest rate swap contracts in connection with the sale and leaseback transaction undertaken in the year (note 12).

Exceptional items within operating profit in the prior period of £0.7m were represented by redundancy and other reorganisation costs.

TRAVELODGE LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS  
For the year ended 31 December 2007

10 NET OPERATING EXPENSES

	Year ended 31 December 2007 £m	Period to 31 December 2006 £m	Proforma 12 months to 31 December 2006 <sup>1</sup> £m
Cost of goods sold	14.9	3.6	10.8
Employee costs (note 11)	58.6	17.4	50.2
Operating expenses - utilities	9.6	2.6	8.2
- rates and service charges	11.1	4.3	9.9
- other operating expenses	33.4	7.7	30.8
Hire of plant and machinery	0.2	0.1	0.2
<b>Net operating expenses before rent and depreciation</b>	<b>127.8</b>	<b>35.7</b>	<b>110.1</b>
Cash rent payable (third party landlords)	64.0	17.2	51.4
Rent receivable	(3.8)	(1.4)	(4.2)
Net external cash rent payable	60.2	15.8	47.2
<b>Net operating expenses pre IAS 17 non-cash rent and depreciation</b>	<b>188.0</b>	<b>51.5</b>	<b>157.3</b>
IAS 17 non-cash rent <sup>2</sup>	7.5	3.1	
	<b>195.5</b>	<b>54.6</b>	
<b>Net operating expenses after IAS 17 non-cash rent before depreciation</b>			
Depreciation	15.6	4.3	
Amortisation	12.1	3.6	
	<b>223.2</b>	<b>62.5</b>	
Exceptional items (note 9)	2.6	0.7	
<b>Total net operating expenses</b>	<b>225.8</b>	<b>63.2</b>	

In the year ended 31 December 2007, auditors' remuneration for audit work was £392k (2006: £479k), £1,040k for tax services (2006: £311k) and £nil for other non-audit services (2006: £nil). Auditor remuneration in respect of the parent company was £6k (period ended 2006: £nil).

1 - Proforma figures for the 12 month period to 31 December 2006 are not given to total net operating expenses but only to net operating expenses pre IAS 17 non-cash rent and depreciation because the basis of the IAS 17 non-cash rent charge and amortisation charge differ materially between the periods as a result of the acquisition and subsequent fair value adjustments.

2 - IAS 17 non-cash rent represents the adjustment required under IAS 17 for leases with fixed annual uplifts to produce an even charge over the length of the lease and does not allow the discounting of future payments to reflect the time value of money.

TRAVELODGE LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

11 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	Year ended 31 December 2007 £000	Period to 31 December 2006 £000
Directors' emoluments	1,246	343
Fees	188	142
Benefits in kind	2	1
<b>Total</b>	<b>1,436</b>	<b>486</b>
Remuneration of the highest paid director	400	131
<b>Employee costs during the year (including Directors)</b>	<b>£m</b>	<b>£m</b>
Wages and salaries	54.7	16.3
Social security costs	3.5	1.0
Pension costs	0.4	0.1
<b>Employee costs before exceptional items</b>	<b>58.6</b>	<b>17.4</b>
Exceptional items (note 9)	-	0.7
<b>Total employee costs</b>	<b>58.6</b>	<b>18.1</b>
	Year ended 31 December 2007 Number	Period to 31 December 2006 Number
<b>Average number of persons employed<sup>1</sup></b>		
- UK	2,819	2,758
- Spain	51	53
	<b>2,870</b>	<b>2,811</b>

The average number of employees for the year ended 31 December 2007 and the period ended 31 December 2006 includes all employees whether full time or part time employees. The average number of employees has been calculated by dividing the total number of hours worked by part time staff by the hours in a full time working week.

In the proforma 12 month period to 31 December 2006, the average number of people employed was 2,729.

*1 - Average number of persons employed includes executive Directors.*

12 PROFIT ON DISPOSAL OF FIXED ASSETS

Profit and loss on disposal of fixed assets of £3.4m (2006: £nil) is primarily made up of a gain of £3.2m on the sale and immediate leaseback of 17 hotels, with gross proceeds of £127.5m, transaction costs of £4.6m and the net book value of assets disposed of £111.8. The Directors, having taken appropriate advice, have determined that the gross proceeds received exceeded the fair value of the assets disposed by £7.9m and therefore, in accordance with IAS 17 the amount of profit in excess of fair value has been deferred and amortised to the income statement over the term of the lease. A further £0.2m profit was realised on the disposal of fixtures and fittings in the year.

TRAVELODGE LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS  
For the year ended 31 December 2007

13 OPERATING LEASE COMMITMENTS

The total gross annual rent commitment of £76.6m (31 December 2006: £57.0m) wholly expires in more than five years.

The total gross annual rent receivable of £4.0m (31 December 2006: £4.3m) wholly expires in more than five years.

	2007 £m	2006 £m
<b>Annual Rental Commitments<sup>1,2</sup></b>		
Rent payable <sup>4</sup>	76.6	57.0
Rent receivable <sup>5,6</sup>	(4.0)	(4.3)
<b>Net Annual Rental Commitments</b>	<b>72.6</b>	<b>52.7</b>
<b>Future minimum cumulative rental commitments</b>		
Rent payable <sup>4</sup>	2,100.2	1,697.3
Rent receivable <sup>3, 5,6</sup>	(86.5)	(102.1)
<b>Future minimum cumulative rental commitments</b>	<b>2,013.7</b>	<b>1,595.2</b>
<b>Average lease term<sup>4</sup></b>	<b>years</b>	<b>years</b>
Rent payable <sup>4</sup>	25	26
Rent receivable <sup>5,6</sup>	21	23
<b>Average lease term</b>	<b>25</b>	<b>26</b>

1 - The difference between the net annual rent commitment above of £72.6m and the cash rent charge incurred in the year ended 31 December 2007 of £60.2m principally relates to the annualisation of rent commitments on new properties of £8.8m and the annualisation of rent commitments entered into as part of the sale and leaseback transaction on 17 long leasehold properties entered into in the year.

2 - The difference between the net annual rent commitment above of £52.7m and the proforma cash rent charge incurred in the year ended 31 December 2006 of £47.2m principally relates to the annualisation of rent commitments on new properties of £5.5m.

3 - At the balance sheet date, the majority of properties held under sub-lease had committed tenants for the foreseeable future and expire after 25 years with an average lease term of 21 years. Of these 128 properties, 111 related to restaurants located adjacent to Travelodge hotels with a net rent receivable of £3.1m per annum, and average lease term remaining of 22 years.

4 - The annual rental commitments includes £75.3m (2006: £55.7m) of rent payable on properties in the UK and £1.3m (2006: £1.3m) on properties in Spain and rent receivable which relates to properties in the UK. There is no rent receivable in Spain.

5 - The future minimum cumulative rental commitments includes £2,073.0m (2006: £1,668.7m) of rent payable on properties in the UK and £27.2m (2006: £28.6m) on properties in Spain and rent receivable which relates to properties in the UK. There is no rent receivable in Spain.

6 - The average lease term is made up of 25 years (2006: 26 years) in relation to rent payable on properties in the UK, 20 years (2006: 21 years) in relation to properties in Spain and 21 years (2006: 23 years) in relation to rent receivable on properties in the UK. There are no rents receivable in Spain.

The table below details the Company's remaining contractual liabilities for its operating lease commitments.

	Within 1 year	1-5 years	5+ years	Total
	£m	£m	£m	£m
<b>2007</b>				
Rent payable	76.6	317.9	1,705.7	2,100.2
Rent receivable	(4.0)	(16.3)	(66.2)	(86.5)
<b>Total</b>	<b>72.6</b>	<b>301.6</b>	<b>1,639.5</b>	<b>2,013.7</b>
<b>2006</b>				
Rent payable	57.0	262.6	1,377.7	1,697.3
Rent receivable	(4.3)	(17.4)	(80.4)	(102.1)
<b>Total</b>	<b>52.7</b>	<b>245.2</b>	<b>1,297.3</b>	<b>1,595.2</b>

**TRAVELODGE LIMITED**

**NOTES TO THE CONSOLIDATED ACCOUNTS**

**For the year ended 31 December 2007**

**14 INVESTMENT REVENUE**

	Year ended 31 December 2007 £m	Period to 31 December 2006 £m
Interest on bank deposits	2.4	0.5

**15 FINANCE COSTS**

	Year ended 31 December 2007 £m	Period to 31 December 2006 £m
Interest on bank loans and other loans <sup>1</sup>	50.0	15.4
Finance fees	0.6	0.2
Interest on obligations under finance leases	4.0	1.2
Amortisation of debt issue costs	1.5	0.5
Unwinding of discount on provisions	1.0	0.6
<b>Finance costs before Eurobond interest</b>	<b>57.1</b>	<b>17.9</b>
Eurobond interest charged (non-cash)	32.6	10.1
<b>Finance costs<sup>2</sup></b>	<b>89.7</b>	<b>28.0</b>
Exceptional finance credit (note 9) <sup>3</sup>	(2.7)	-
<b>Finance costs after exceptional finance credits</b>	<b>87.0</b>	<b>28.0</b>

*1 - Includes non-cash accrued interest which relates to the Mezzanine loan of £5.3m (2006: £1.4m) and PIK loan of £8.0m (2006: £2.5m).*

*2 - Finance costs for the year ended 31 December 2007 can further be analysed as interest paid on bank debt of £28.2m, finance leases interest paid of £3.5m, finance leases interest accrued of £0.5m, finance fees paid of £0.4m, finance fees accrued of £0.2m, Eurobond interest accrued of £32.6m, interest accrued into principal of £13.3m, interest accrued in creditors of £8.5m, amortised debt issue costs of £1.5m and unwinding of discount on provisions of £1.0m.*

*Finance costs for the period ended 31 December 2006 can further be analysed as interest paid on bank debt of £8.6m, finance leases interest paid of £1.2m, finance fees paid of £0.2m, Eurobond interest accrued of £10.1m, interest accrued into principal of £3.9m, interest accrued in creditors of £2.9m, amortised debt issue costs of £0.5m and unwinding of discount on provisions of £0.6m.*

*3 - Exceptional finance credit charged against interest of £2.7m consists of income from the exit of certain interest rate swap contracts.*

TRAVELODGE LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS  
For the year ended 31 December 2007

16 TAX CREDIT

	Year ended 31 December 2007 £m	Period to 31 December 2006 £m
<b>Deferred tax</b>		
Origination and reversal of temporary timing differences	35.4	0.6
<b>Income tax credit</b>	<b>35.4</b>	<b>0.6</b>

Corporation tax is calculated at 30% (2006: 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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

	Year ended 31 December 2007 £m	Period to 31 December 2006 £m
<b>Loss before tax</b>	<b>(63.2)</b>	<b>(22.2)</b>
Tax at the UK corporation tax rate of 30%	(19.0)	(6.7)
Tax effect of:		
Items not deductible for tax purposes	5.0	3.5
Capital allowances in excess of depreciation	(21.8)	1.6
Tax losses	(9.2)	1.2
Realised and unrealised chargeable gains	9.6	(0.2)
<b>Income tax credit</b>	<b>(35.4)</b>	<b>(0.6)</b>

Deferred tax credit arising in the year is comprised as follows:

	Intangible assets £m	Tax losses £m	Accelerated tax depreciation £m	Deferred income £m	IAS 17 rent adjustment £m	Total £m
Credit due to movement in the year	1.4	-	(28.0)	(2.4)	(2.0)	(31.0)
Charge/(credit) due to change in tax rate	(7.3)	(0.3)	2.9	0.2	0.1	(4.4)
<b>Credit to income statement</b>	<b>(5.9)</b>	<b>(0.3)</b>	<b>(25.1)</b>	<b>(2.2)</b>	<b>(1.9)</b>	<b>(35.4)</b>

In addition to the amount charged to the income statement, deferred tax relating to the movement in fair value of hedging derivatives amounting to £0.6m has been charged directly to equity.

Unprovided deferred tax is as follows:

	2007 Unprovided £m	2006 Unprovided £m
Tax losses	3.4	12.6
<b>Deferred tax asset</b>	<b>3.4</b>	<b>12.6</b>

The potential net deferred tax asset shown above relates to capital losses and has not been recognised due to the lack of certainty that there will be suitable future taxable profits against which the reversal of the deferred tax asset can be utilised.

**TRAVELODGE LIMITED**

**NOTES TO THE CONSOLIDATED ACCOUNTS**

**For the year ended 31 December 2007**

**17 DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE**

Prior to the acquisition of the Travelodge business, after a review of the economic efficiency and potential increasing repair cost of the Regent Palace Hotel, a subsidiary reached agreement with Crown Estates (the landlord) to exercise an option in the lease to surrender the property. The hotel was closed on 1 January 2007 and a payment was made to the landlord of £1.0m on 5th January 2007 and in return all dilapidations liabilities were waived. In addition, redundancy and other closure costs were £0.8m and were paid during 2007.

The major class of assets and liabilities comprising the disposal group classified as held for sale are as follows:

	<b>2007</b>	<b>2006</b>
	<b>£m</b>	<b>£m</b>
Stock, debtors and cash	-	<b>0.9</b>
Total assets classified as held for sale	-	<b>0.9</b>
Trade and other payables	-	<b>(0.9)</b>
Provisions	-	<b>(2.0)</b>
Total liabilities classified as held for sale	-	<b>(2.9)</b>
<b>Net liabilities of disposal group</b>	-	<b>(2.0)</b>

**18 PRINCIPAL SUBSIDIARIES**

**Principal subsidiaries held at 31 December 2007**

<b>Name of subsidiary undertaking</b>	<b>Business Description</b>	<b>Country of Incorporation</b>	<b>% of equity held</b>
Travelodge Hotels Limited	Trading	Great Britain	100
Full Moon Holdco 2 Limited	Holding company	Great Britain	100
Full Moon Holdco 3 Limited	Holding company	Great Britain	100
Full Moon Holdco 3A Limited	Holding company	Great Britain	100
Full Moon Holdco 4 Limited	Holding company	Great Britain	100
Full Moon Holdco 5 Limited	Holding company	Great Britain	100
Full Moon Holdco 6 Limited	Holding company	Great Britain	100
TLLC Group Holdings Limited	Holding company	Great Britain	100
TLLC Limited	Holding company	Great Britain	100
Travelodge Hoteles Espana SL (Spain)	Trading	Spain	100
TLLC LevPropCo1 Limited	Property Lessor	Great Britain	100
TLLC LevPropCo5 Limited	Property Lessor	Great Britain	100
TLLC LevPropCo7 Limited	Property Lessor	Great Britain	100
TLLC PropHoldCo 2 Limited	Holding company	Great Britain	100
TLLC Trustees Limited	Holding company	Great Britain	100
TLLC Holdings 2 Limited	Holding company	Great Britain	100
TLLC Holdings 3 Limited	Holding company	Great Britain	100
TLLC Holdings 4 Limited	Holding company	Great Britain	100
TLLC Holdings 5 Limited	Holding company	Great Britain	100

TRAVELODGE LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

19 GOODWILL

	£m
Cost & carrying amount	
<b>At 1 January 2007 and 31 December 2007</b>	<b>276.9</b>

The goodwill acquired at acquisition is allocated to cash generating units that are expected to benefit from the business combination. The full amount of goodwill has been allocated to the Travelodge business in the United Kingdom.

Goodwill is tested on an annual basis for impairment. The Company prepares cash flow forecasts for each cash generating unit derived from the most recent financial budgets and financial plans to 31 December 2015 approved by the Directors and extrapolates cash flows beyond this time based on an estimated growth rate of 2.5%.

20 OTHER INTANGIBLE ASSETS

	Lease premiums £m	Brand/ Trademark £m	Franchise contracts £m	IT Software £m	Total £m
<b>Cost</b>					
At 1 January 2007	284.2	78.1	3.4	4.4	370.1
Additions <sup>1</sup>	15.2	-	-	3.5	18.7
<b>At 31 December 2007</b>	<b>299.4</b>	<b>78.1</b>	<b>3.4</b>	<b>7.9</b>	<b>388.8</b>
<b>Amortisation</b>					
At 1 January 2007	(3.1)	-	(0.1)	(0.4)	(3.6)
Charge for the year	(10.4)	-	(0.2)	(1.5)	(12.1)
Reclassification	(0.2)	-	-	-	(0.2)
<b>At 31 December 2007</b>	<b>(13.7)</b>	<b>-</b>	<b>(0.3)</b>	<b>(1.9)</b>	<b>(15.9)</b>
<b>Carrying amount</b>					
<b>At 31 December 2007</b>	<b>285.7</b>	<b>78.1</b>	<b>3.1</b>	<b>6.0</b>	<b>372.9</b>
At 1 January 2007	281.1	78.1	3.3	4.0	366.5

1 - Capital expenditure for the year ended 31 December 2007 in the cashflow statement of £29.7m (2006: £9.2m) comprises intangible asset additions of £18.7m (2006: £4.9m) and property, plant and equipment additions of £11.0m (2006: £4.3m) (note 21).

Lease premiums are amortised on a straight line basis over the lease period. The average remaining lease period at the year end was 25 years (2006: 26 years).

The Company considers that the value of the brand name, which was first introduced into the UK in 1985 and was first introduced into the US in 1958, will be maintained almost indefinitely due to its longevity to date and continued investment in consumer marketing and advertising, public relations and hotel maintenance and refurbishment across the business and is therefore not amortised, but is reviewed annually for impairment. There was no impairment suffered during the period.

The recoverable amount for the brand / trademark is determined by a value in use calculation. The key assumptions for the value in use calculations are those regarding the discount rate, growth rate and expected changes to direct costs during the year. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the brand / trademark.

The Company prepares cash flow forecasts derived from the most recent financial budgets and financial plans approved by the Director and extrapolates cash flows beyond this time based on an estimated growth rate of 2.5%.

The value of the franchise contracts are amortised, on a straight line basis, over the length of the franchise fee agreements.

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

**TRAVELODGE LIMITED**

**NOTES TO THE CONSOLIDATED ACCOUNTS**

For the year ended 31 December 2007

**21 PROPERTY, PLANT AND EQUIPMENT**

	<b>Freehold and long leaseholds £m</b>	<b>Finance leased land and buildings £m</b>	<b>Fixtures and fittings £m</b>	<b>Total £m</b>
<b>Cost</b>				
At 1 January 2007	116.8	25.7	57.0	199.5
Capital expenditure <sup>1</sup>	-	2.2	8.8	11.0
Movement on capital creditors	-	-	4.0	4.0
Disposed units	(113.3)	-	(0.9)	(114.2)
<b>At 31 December 2007</b>	<b>3.5</b>	<b>27.9</b>	<b>68.9</b>	<b>100.3</b>
<b>Accumulated depreciation</b>				
At 1 January 2007	(0.6)	(0.3)	(3.4)	(4.3)
Charge for the year	(1.1)	(0.7)	(13.8)	(15.6)
Depreciation on disposal	1.5	-	0.3	1.8
Reclassification	-	0.2	-	0.2
<b>At 31 December 2007</b>	<b>(0.2)</b>	<b>(0.8)</b>	<b>(16.9)</b>	<b>(17.9)</b>
<b>Net book value</b>				
<b>At 31 December 2007</b>	<b>3.3</b>	<b>27.1</b>	<b>52.0</b>	<b>82.4</b>
At 1 January 2007	116.2	25.4	53.6	195.2

*1 - Capital expenditure for the year ended 31 December 2007 in the cashflow statement of £29.7m (2006: £9.2m) comprises intangible asset additions of £18.7m (2006: £4.9m) and property, plant and equipment additions of £11.0m (2006: £4.3m) (note 20).*

Freehold and long leasehold properties are stated at cost. Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets.

Included in the freehold and long leasehold assets is an amount of £nil (2006: £nil) of non-depreciable assets.

**22 STOCKS**

As at 31 December 2007, the Company held food, bar stocks and hotel consumables totalling £0.7m (2006: £0.5m).

**TRAVELODGE LIMITED**

**NOTES TO THE CONSOLIDATED ACCOUNTS**

**For the year ended 31 December 2007**

**23 TRADE AND OTHER RECEIVABLES**

	<b>2007</b>	2006
	<b>£m</b>	£m
Amounts due within one year:		
Trade amounts receivable	7.7	4.4
Other amounts receivable	2.3	2.5
Amounts due under development contracts	3.4	4.1
Prepayments and accrued income <sup>1</sup>	15.5	15.7
	<b>28.9</b>	<b>26.7</b>

*1 - Prepayments and accrued income mainly include prepayments of rent and rates.*

Trade amounts receivable are received on average in 30 days (2006: 22 days) and experience to date has shown that all of these trade debtors are recoverable. Trade amounts receivable include £0.2m which is overdue (2006: £0.4m) all of which is expected to be fully recoverable. All amounts due under development contracts in 2007 and 2006 are current.

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

**24 TRADE AND OTHER PAYABLES**

	<b>2007</b>	2006
	<b>£m</b>	£m
Trade creditors and accruals	18.7	17.9
Capital creditors	13.4	9.6
Interest creditor	12.2	3.2
Social security and other taxation	7.0	2.9
IAS 17 non cash rent accrual	9.5	2.8
Other creditors	16.8	15.9
Amounts owing under development contracts	6.8	5.7
Deferred income	1.1	0.2
	<b>85.5</b>	<b>58.2</b>

The Company pays its trade creditors in line with the terms that it has agreed with its suppliers. These terms vary from 30 days to 120 days.

Other Creditors includes £12.0m (2006: £4.4m) of monies received at the time of room booking prior to arrival date, of which 39% (2006: 100%) would be non-refundable on cancellation of the room booking.

All amounts payable under development contracts in 2007 and 2006 are current.

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

**TRAVELODGE LIMITED**

**NOTES TO THE CONSOLIDATED ACCOUNTS**

For the year ended 31 December 2007

**25 DEFERRED INCOME**

	2007 £m	2006 £m
Deferred income	10.3	2.3
	<b>10.3</b>	<b>2.3</b>

Included in the deferred income of £10.3m is a balance of £7.9m (2006: £nil) which resulted from the sale and immediate leaseback of 17 hotels, with gross proceeds of £127.5m, transaction costs of £4.6m and the net book value of assets disposed of £111.8. The Directors, having taken appropriate advice, have determined that the gross proceeds received exceeded the fair value of the assets disposed by £7.9m and therefore, in accordance with IAS 17 the amount of profit in excess of fair value has been deferred and will be amortised to the income statement over the term of the lease.

**26 OBLIGATIONS UNDER FINANCE LEASES**

	Minimum lease payments 2007 £m	Capital liability 2007 £m	Minimum lease payments 2006 £m	Capital liability 2006 £m
Amounts payable under finance leases				
Within one year	3.6	-	3.5	-
In the second to fifth years inclusive	15.4	-	14.5	-
Greater than five years	374.1	27.4	370.6	26.9
	<b>393.1</b>	<b>27.4</b>	<b>388.6</b>	<b>26.9</b>
Less: future finance charges	(365.7)		(361.7)	
	<b>27.4</b>		<b>26.9</b>	
<b>Amount due for settlement after 12 months</b>	<b>27.4</b>		<b>26.9</b>	

The Company holds six properties which have been classified as finance leases with an average lease term of 55 years (2006: 56 years).

**TRAVELODGE LIMITED**

**NOTES TO THE CONSOLIDATED ACCOUNTS**  
**For the year ended 31 December 2007**

**27 FINANCIAL ASSETS AND LIABILITIES**

	<b>2007</b>	2006
	<b>£m</b>	£m
Cash at bank and in hand	<b>54.8</b>	19.8
Bank debt is repayable as follows:		
- within one year or on demand	-	-
- more than one year but not more than two years	-	-
- more than two years but not more than five years	<b>(14.1)</b>	(4.8)
- more than five years but not more than seven years	<b>(140.4)</b>	(84.6)
- seven years or more	<b>(296.2)</b>	(430.2)
Gross bank debt	<b>(450.7)</b>	<b>(519.6)</b>
Issue costs	<b>11.7</b>	13.2
<b>Bank debt</b>	<b>(439.0)</b>	<b>(506.4)</b>
<b>Net bank debt</b>	<b>(384.2)</b>	<b>(486.6)</b>
Eurobond (repayable in 2017)	<b>(226.2)</b>	(193.6)
<b>Net debt before finance leases</b>	<b>(610.4)</b>	<b>(680.2)</b>
Finance leases	<b>(27.4)</b>	(26.9)
<b>Net debt including finance leases</b>	<b>(637.8)</b>	<b>(707.1)</b>

The gross bank debt was made up of the following: Commercial mortgage loan £nil (2006: £95.2m), Senior Loans £308.5m (2006: £295.5m), Mezzanine Loan £91.7m (2006: £86.4m) and PIK Loan £50.5m (2006: £42.5m). The Mezzanine Loan (of £91.7m) expires in 2016, and the PIK Loan (of £50.5m) expires in 2017. Of the Senior Loans, £14.1m expires between 2010 and 2012, £6.4m expires in 2013, £134.0m expires in 2014, £124.0 expires in 2015 and £30.0m expires in 2016.

The Eurobond issue price was £183.5m, the annual interest on the instrument is 17% and the bond is redeemable in 2017.

The interest rate range for the loans in the year ended 31 December 2007 was as follows: Commercial mortgage loan 6.9% (2006: 6.7%), Senior Loans 8.9% (2006: 7.8%), Mezzanine Loan 14.9% (2006: 14.2%) and PIK Loan 17.9% (2006: 16.3%). The loans were variably secured on properties of certain subsidiary undertakings and charges over shares in subsidiary undertakings.

The weighted average interest rate paid in the year ended 31 December 2007, excluding the effect of interest rate swaps but including the capitalised part of the Mezzanine and PIK Loans were as follows: Bank loans 11.7% (2006: 11.0%), Eurobond 17.0% (2006: 17.0%) and finance leases 14.4% (2006: 14.4%).

The Directors estimate that the fair value of the bank debt, using the amortised cost method of calculation, at the year end is £439.0m (2006: £506.4m).

The Eurobond is listed on the Channel Islands stock exchange, but has not been traded. The Directors estimate that the fair value of the Eurobond is £215.3m (2006: £193.6m), representing 95% of the book value (2006: 100% of book value). The fair value reflects the change in market rates and any estimated changes in the credit spread for the Company.

Bank balances and cash comprise cash held by the Company and short-term bank deposits with an original maturity date of 1 month or less. The carrying amount of these assets approximates to their fair value.

	<b>2007</b>	<b>2007</b>	2006	2006
	<b>Carrying</b>	<b>Fair value</b>	Carrying	Fair value
	<b>amount</b>	<b>£m</b>	amount	£m
	<b>£m</b>	<b>£m</b>	£m	£m
<b>Financial instrument categories</b>				
Derivative instruments in hedge accounting relationships	<b>(1.5)</b>	(1.5)	0.7	0.7
Loans and receivables <sup>1</sup>	<b>68.2</b>	68.2	30.8	30.8
Financial liabilities measured at amortised cost <sup>2</sup>	<b>(700.4)</b>	(689.5)	(777.6)	(777.6)

*1 - Loans and receivables is made up of cash, trade receivables, other receivables and amounts due under construction contracts.*

*2 - Financial liabilities measured at amortised cost is made up of the Eurobond, net bank debt, finance lease creditors, trade payables, capital creditors, interest creditors, social security and taxation creditors, other creditors and amounts owing under construction contracts.*

**TRAVELODGE LIMITED**

**NOTES TO THE CONSOLIDATED ACCOUNTS**

**For the year ended 31 December 2007**

**27 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**

	2007	2006
	£m	£m
Cash at bank and in hand	54.8	19.8
Debt - Sterling floating rate <sup>1</sup>	(168.3)	(142.0)
- Sterling fixed rate <sup>2</sup>	(282.4)	(377.6)
Issue costs	11.7	13.2
<b>Net bank debt</b>	<b>(384.2)</b>	<b>(486.6)</b>
Eurobond	(226.2)	(193.6)
<b>Net debt before finance leases</b>	<b>(610.4)</b>	<b>(680.2)</b>
Finance leases	(27.4)	(26.9)
<b>Net debt after finance leases</b>	<b>(637.8)</b>	<b>(707.1)</b>

1 - The weighted average cost of sterling floating rate debt in the year ended 31 December 2007 was 13.0% (2006: 12.0%), with the average time remaining of 8.1 years (2006: 9.2 years).

2 - The average cost of sterling fixed rate debt in the year ended 31 December 2007 was 9.7% (2006: 9.5%), with the average fixed term under interest rate Swap agreements remaining of 1.8 years (2006: 2.8 years).

**Interest Rate Swaps**

The Company uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. Contracts with nominal values of £282.4m (2006: £377.6m) have fixed interest payments at an average rate of 5.7% (2006: 5.3%) and have floating interest receipts at LIBOR for periods up until 2009 (2006: 2013).

The fair value of the Company's interest rate swaps is estimated at £(1.5)m (2006: £0.7m). This amount was based on market values of equivalent instruments at the balance sheet date. These interest rate swaps are designated and effective as cash flow hedges and the movement in fair value thereof of £(2.2)m (2006: £0.7m) has been deferred in equity.

During the year ended 31 December 2007 an element of the Company's interest rate swaps totalling £282.4m was derecognised. A new interest rate swap was acquired simultaneously, for an identical value, remaining period and terms as the derecognised swap with the exception of the contracted fixed interest rate.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts as at 31 December 2007:

	Average contracted		Notional principal amount		Fair value	
	fixed interest rate					
	2007	2006	2007	2006	2007	2006
	%	%	£m	£m	£m	£m
Less than 1 year	-	-	-	-	-	-
1 to 5 years	5.65%	5.40%	282.4	282.4	(1.5)	0.9
5+ years	-	5.30%	-	95.2	-	(0.2)
<b>Total</b>	<b>5.70%</b>	<b>5.30%</b>	<b>282.4</b>	<b>377.6</b>	<b>(1.5)</b>	<b>0.7</b>

**Risk**

**Interest rate risk:** The Company finances its operations through borrowings. The Company borrows at fixed and floating rates, and uses interest rate swaps to generate the desired interest profile. Company policy is to comply with the terms and conditions stated within the loan facilities. The hedging requirements and actual hedging (in brackets) for the loans are as follows: Senior and Mezzanine Loans 66% (66%). The interest rate swap used to hedge the Senior and Mezzanine loans expires in 2009. The Company was required to hedge 100% of the Commercial Mortgage and did this via a £95.2m fixed rate swap with a fixed interest rate of 5.3%. The Commercial Mortgage was repaid during 2007 upon the sale and immediate leaseback of the 17 properties against which the facility was secured (see note 12). The swap used to hedge the Commercial Mortgage was simultaneously cancelled (see note 9).

**Basis risk:** Company policy is to align interest periods for debt to match the interest periods for the swap hedging of the debt.

TRAVELODGE LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

27 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Capital risk management: The Company manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Company consists of debt, which includes borrowings disclosed above, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 30 and 31.

Interest rate sensitivity: The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At reporting date, if interest rates had been 25 basis points lower/higher and all other variables were held constant, the Company's:

- net profit would increase/decrease by £0.3m (2006: increase/decrease by £0.1m). This is mainly attributable to the Company's exposure to interest rates on its variable rate borrowings;
- other equity reserves would increase/decrease by £1.3m (2006: increase/decrease by £2.0) as a result of the change in the fair value of the interest rate swaps.

The Company's sensitivity to interest rates has remained unchanged during the current year.

Liquidity risks: The Company has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by monitoring forecast and actual cashflows and matching the maturity profiles of financial assets and liabilities. The Company's loan facility ensures continuity of funding, with £14.1m or 3% of bank debt falling due for maturity within the next 5 years. The Company has committed facilities available but not utilised of £39.9m. Of these un-utilised facilities, all are available under the Senior facilities and expire in 2013.

Credit risk: The Company does not have any significant credit risk exposure to any single counterparty. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Currency exposures: At 31 December 2007 the Company had no material currency exposures that would give rise to net currency gains or losses being recognised in the income statement.

Market price risk: The Company's exposure to market price risk comprises interest rate risk and currency risk. It regularly monitors these exposures and considers from time to time whether there would be a benefit in hedging these risks.

28 DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior reporting period.

	Intangible assets <sup>1</sup> £m	Tax losses and holdover relief £m	Financial derivative asset £m	Accelerated tax depreciation £m	Deferred income £m	IAS 17 rent adjustment £m	Realised & unrealised chargeable gains £m	Total £m
At 5 September 2006	(108.0)	(4.2)	-	14.7	-	-	(0.2)	(97.7)
Charge to income	(0.3)	(0.2)	-	0.1	-	0.8	0.2	0.6
Charge to equity	-	-	(0.2)	-	-	-	-	(0.2)
At 1 January 2007	(108.3)	(4.4)	(0.2)	14.8	-	0.8	-	(97.3)
Charge to income	5.9	0.3	-	25.1	2.2	1.9	-	35.4
Charge to equity	-	-	0.6	-	-	-	-	0.6
At 31 December 2007	(102.4)	(4.1)	0.4	39.9	2.2	2.7	-	(61.3)

1 - Deferred tax liability of £102.4m (2006: £108.3m) represents the deduction for tax purposes against any taxable economic benefits that will be received if the Company recovers the carrying amount of intangible assets.

At the balance sheet date the Company has a deferred tax asset in respect of unused losses of £3.4m (2006: £12.6m) available for offset against appropriate future taxable profits. The potential net deferred tax asset shown has not been recognised due to the lack of certainty that there will be suitable future taxable profits against which the reversal of the deferred tax asset can be utilised.

TRAVELODGE LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

29 PROVISIONS

	Vacant restaurant units £m	Other onerous leases £m	Previous head office £m	Total £m
At 1 January 2007	(16.3)	(0.7)	(1.3)	(18.3)
Increase in provisions	-	(0.2)	-	(0.2)
Disposals	2.1	-	0.1	2.2
Cash spend	3.5	0.1	0.3	3.9
Unwinding of discount of provisions	(0.8)	(0.1)	(0.1)	(1.0)
<b>At 31 December 2007<sup>1</sup></b>	<b>(11.5)</b>	<b>(0.9)</b>	<b>(1.0)</b>	<b>(13.4)</b>

*1 - Provisions of £13.4m (2006: £18.3m) include £11.5m for rent liabilities on 39 vacant restaurant units, with annual rent liability of £1.5m and average lease term remaining of 28 years, (2006: £16.3m for rent liabilities on 44 vacant restaurant units, with annual rent liability of £2.0m and average lease term remaining of 29 years), £0.9m principally for rent liabilities on certain historical onerous hotel leases (2006: £0.7m) and £1.0m represented by a net rent liability on the Company's previous offices (2006: £1.3m), which have been sub-let at the passing rent for a term less than the full term remaining on the lease.*

30 SHARE CAPITAL

	2007 Number of shares	2006 Number of shares	2007 £	2006 £
<b>Authorised:</b>				
Ordinary 'A' shares of £1 each	1,999,999	1,999,999	1,999,999	1,999,999
Ordinary 'B' shares of £1 each	444,000	500,000	444,000	500,000
Ordinary 'C' shares of £1 each	1	1	1	1
Ordinary 'D' shares of £1 each	56,000	-	56,000	-
<b>Called up, allotted and fully paid:</b>				
Ordinary 'A' shares of £1 each	1,999,999	1,999,999	1,999,999	1,999,999
Ordinary 'B' shares of £1 each	435,000	375,000	435,000	375,000
Ordinary 'C' shares of £1 each	1	1	1	1
Ordinary 'D' shares of £1 each	56,000	-	56,000	-
	<b>2,491,000</b>	<b>2,375,000</b>	<b>2,491,000</b>	<b>2,375,000</b>

All classes of shares, both authorised and called up, allotted and fully paid represent equity.

On 23 January 2007 the authorised share capital of 'B' ordinary shares was decreased by 50,000 and share capital consisting of 50,000 'D' ordinary shares was authorised. Also on this date the Company issued 50,000 'B' ordinary shares and 45,625 'D' ordinary shares at par raising £95,625.

On 2 May 2007 the authorised share capital of 'B' ordinary shares was decreased by 2,000 and share capital consisting of 2,000 'D' ordinary shares was authorised. Also on this date the Company issued 5,375 'D' ordinary shares at par raising £5,375.

On 20 December 2007 the authorised share capital of 'B' ordinary shares was decreased by 4,000 and share capital consisting of 4,000 of 'D' ordinary shares was authorised. Also on this date the Company issued 10,000 'B' ordinary shares and 5,000 'D' ordinary shares at par raising £15,000.

All shares carry an equal right to distributions of dividends and the repayment of capital. Ordinary 'A', 'B' and 'D' shares carry an equal voting right of one vote per share held. The ordinary 'C' share entitles the holder to the number of votes which is equal to one more vote than the aggregate number of votes cast by the holders of the 'A' ordinary, 'B' ordinary and the 'D' ordinary shares and any other shares carrying voting rights.

**TRAVELODGE LIMITED**

**NOTES TO THE CONSOLIDATED ACCOUNTS**  
**For the year ended 31 December 2007**

**31 RESERVES**

	Hedging reserve £m	Retained deficit £m	Total £m
At 1 January 2007	0.7	(21.8)	(21.1)
Retained deficit	-	(27.8)	(27.8)
Movement in fair value of hedging derivatives	(2.2)	-	(2.2)
Deferred tax on hedging derivatives taken to equity	0.6	-	0.6
<b>At 31 December 2007</b>	<b>(0.9)</b>	<b>(49.6)</b>	<b>(50.5)</b>
Analysed as:			
Equity	(0.9)	(49.6)	(50.5)
Non-equity	-	-	-
<b>At 31 December 2007</b>	<b>(0.9)</b>	<b>(49.6)</b>	<b>(50.5)</b>

**32 CAPITAL COMMITMENTS**

Contracted future capital expenditure not provided for in these financial statements amounts to £nil (2006: £0.2m).

**33 CONTINGENT LIABILITIES**

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

At 31 December 2007 the estimated annual contingent rental liability was £0.1m (2006: £0.3m), represented by 7 units (2006: 13 units), with an average annual rental cost per unit of £16k (2006: £21k) and an average lease term remaining of 30 years (2006: 27 years).

At 31 December 2007 the Company had guaranteed an indemnity issued in favour of the Royal Bank of Scotland PLC of €6.7m (2006: €6.7m), which related to the Company's development plans in Spain. This represents the Company's maximum exposure to credit risk in relation to this guarantee.

**34 RELATED PARTY TRANSACTIONS AND ULTIMATE CONTROLLING PARTY**

The Directors regard Dubai International Capital LLC ("DIC"), a company incorporated in the United Arab Emirates, as the ultimate controlling party. There were no related party transactions in the year, other than with DIC, who provided the Company with consultancy services amounting to £0.2m (2006: £0.1m). In addition in the prior year a one-off arrangement fee of £4.0m was charged by DIC in respect of the equity and debt invested in the Company when acquired. Of the Eurobond loan notes, 96.3% are quoted on the Channel Islands Stock Exchange and were issued at par to and are held by DIC. The remaining notes were issued at par and are held by four of the Directors.

TRAVELODGE LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

35 NOTE TO THE CASH FLOW STATEMENT

	Year ended 31 December 2007		Period to 31 December 2006	
	Before exceptionals £m	Exceptionals £m	Total £m	Total £m
Operating profit / (loss)	20.6	(2.6)	18.0	5.3
Adjustments for:				
Depreciation of property, plant and equipment	15.6	-	15.6	4.3
Amortisation of other intangible assets	12.1	-	12.1	3.6
IFRS non cash rent charge	7.5	-	7.5	3.1
	55.8	(2.6)	53.2	16.3
Operating cash flows before movements in working capital				
Increase in stocks	(0.2)	-	(0.2)	(0.1)
Increase in receivables	(1.3)	(0.9)	(2.2)	(2.9)
Increase / (decrease) in payables	14.0	1.4	15.4	(10.4)
Utilisation of provisions	(3.9)	(1.8)	(5.7)	(1.4)
- cash	(3.9)	(1.8)	(5.7)	(1.4)
- non-cash	(1.0)	(0.2)	(1.2)	1.9
<b>Total working capital movement</b>	<b>7.6</b>	<b>(1.5)</b>	<b>6.1</b>	<b>(12.9)</b>
<b>Cash generated / (used) by operations</b>	<b>63.4</b>	<b>(4.1)</b>	<b>59.3</b>	<b>3.4</b>
Interest paid			(28.2)	(8.6)
Finance fees paid			(0.4)	(0.2)
Interest element of finance rental payments			(3.5)	(1.2)
			(32.1)	(10.0)
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>			<b>27.2</b>	<b>(6.6)</b>

**TRAVELODGE LIMITED**

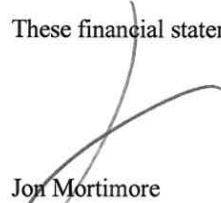
**PARENT COMPANY BALANCE SHEET**

**As at 31 December 2007**

	<i>Notes</i>	<b>Parent Company 2007 £m</b>	<b>Parent Company 2006 £m</b>
<b>NON CURRENT ASSETS</b>			
Investments	36	<u>2.4</u>	<u>2.4</u>
		<u>2.4</u>	<u>2.4</u>
<b>CURRENT ASSETS</b>			
Trade and other receivables	37	10.5	0.1
Cash at bank and in hand		<u>21.6</u>	<u>-</u>
		<u>32.1</u>	<u>0.1</u>
<b>TOTAL ASSETS</b>			
		<u>34.5</u>	<u>2.5</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables due within one year	38	<u>(31.2)</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>			
		<u>(31.2)</u>	<u>-</u>
<b>NET ASSETS</b>			
		<u>3.3</u>	<u>2.5</u>
<b>EQUITY</b>			
Share capital	39	2.5	2.4
Retained surplus	40	<u>0.8</u>	<u>0.1</u>
<b>TOTAL SURPLUS</b>			
		<u>3.3</u>	<u>2.5</u>

The notes on page 49 - 51 form part of these accounts and they are prepared on the basis of note 2 of the Company accounts.

These financial statements were approved by the Board of Directors and signed on its behalf by

  
Jon Mortimore  
Director  
26 February 2008

**TRAVELODGE LIMITED**

**PARENT COMPANY CASH FLOW STATEMENT**  
**For the year ended 31 December 2007**

	<i>Notes</i>	<b>Year ended 31 December 2007</b>	<b>Period ended 31 December 2006<sup>1</sup></b>
		<b>£m</b>	<b>£m</b>
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<i>41</i>	<b>20.8</b>	<b>-</b>
<b>INVESTING ACTIVITIES</b>			
Interest received		<b>0.7</b>	<b>-</b>
<b>Net cash used in investing activities</b>		<b>0.7</b>	<b>-</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds on issue of shares		<b>0.1</b>	<b>-</b>
<b>Net cash from financing activities</b>		<b>0.1</b>	<b>-</b>
<b>Net increase in aggregate cash and cash equivalents</b>		<b>21.6</b>	<b>-</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at end of year</b>		<b>21.6</b>	<b>-</b>

*1 - Period from date of incorporation on 2nd August 2006 to 31 December 2006.*

**TRAVELODGE LIMITED**

**NOTES TO THE PARENT COMPANY ACCOUNTS**

For the year ended 31 December 2007

**36 INVESTMENTS HELD AS FIXED ASSETS**

	<b>Shares in subsidiaries £ 000's</b>
<b>Cost and net book value</b>	
<b>At 1 January 2007 and 31 December 2007</b>	<b>2.4</b>

The Parent Company has investments in the subsidiary undertakings, as listed in the Subsidiary Undertakings note (Company accounts note 18), which principally affect the profits or net assets of the Company.

All subsidiary undertakings have been included in the consolidation and were acquired on 5 September 2006. The investment of £2.4m represents investment in the shares of subsidiaries of £2,000,000 and a long-term loan of £374,999.

**37 TRADE AND OTHER RECEIVABLES**

	<b>2007 £m</b>	<b>2006 £m</b>
Amounts due from Group undertakings	10.5	-

Amounts due from Group undertakings are stated at fair value and are repayable on demand.

**38 TRADE AND OTHER PAYABLES**

	<b>2007 £m</b>	<b>2006 £m</b>
Amounts due from Group undertakings	(31.2)	-

Amounts due to Group undertakings are stated at fair value and are repayable on demand.

**TRAVELODGE LIMITED**

**NOTES TO THE PARENT COMPANY ACCOUNTS**

For the year ended 31 December 2007

**39 SHARE CAPITAL**

	Number of shares	Number of shares	2007 £	2006 £
<b>Authorised:</b>				
Ordinary 'A' shares of £1 each	1,999,999	1,999,999	1,999,999	1,999,999
Ordinary 'B' shares of £1 each	444,000	500,000	444,000	500,000
Ordinary 'C' shares of £1 each	1	1	1	1
Ordinary 'D' shares of £1 each	56,000	-	56,000	-
<b>Called up, allotted and fully paid:</b>				
Ordinary 'A' shares of £1 each	1,999,999	1,999,999	1,999,999	1,999,999
Ordinary 'B' shares of £1 each	435,000	375,000	435,000	375,000
Ordinary 'C' shares of £1 each	1	1	1	1
Ordinary 'D' shares of £1 each	56,000	-	56,000	-
	<b>2,491,000</b>	<b>2,375,000</b>	<b>2,491,000</b>	<b>2,375,000</b>

All classes of shares, both authorised and called up, allotted and fully paid represent equity.

On 23 January 2007 the authorised share capital of 'B' ordinary shares was decreased by 50,000 and share capital consisting of 50,000 'D' ordinary shares was authorised. Also on this date the Company issued 50,000 'B' ordinary shares and 45,625 'D' ordinary shares at par raising £95,625.

On 2 May 2007 the authorised share capital of 'B' ordinary shares was decreased by 2,000 and share capital consisting of 2,000 'D' ordinary shares was authorised. Also on this date the Company issued 5,375 'D' ordinary shares at par raising £5,375.

On 20 December 2007 the authorised share capital of 'B' ordinary shares was decreased by 4,000 and share capital consisting of 4,000 'D' ordinary shares was authorised. Also on this date the Company issued 10,000 'B' ordinary shares and 5,000 'D' ordinary shares at par raising £15,000.

All shares carry an equal right to distributions of dividends and the repayment of capital. Ordinary 'A', 'B' and 'D' shares carry an equal voting right of one vote per share held. The ordinary 'C' share entitles the holder to the number of votes which is equal to one more vote than the aggregate number of votes cast by the holders of the 'A' ordinary, 'B' ordinary and the 'D' ordinary shares and any other shares carrying voting rights.

**40 RESERVES**

	Retained earnings £m
At 1 January 2007	0.1
Profit for the year	0.7
<b>At 31 December 2007</b>	<b>0.8</b>

The profit for the year ended 31 December 2007 for the Parent Company was £692,995 (2006: £60,904). There were no other gains or losses for the year ended 31 December 2007 (2006: £nil). As permitted by section 230 of the Companies Act 1985, no separate income statement is presented in respect of the Parent Company.

**TRAVELODGE LIMITED**

**NOTES TO THE PARENT COMPANY ACCOUNTS**

**For the year ended 31 December 2007**

**41 NOTE TO THE COMPANY CASH FLOW STATEMENT**

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	<b>Year ended 31 December 2007</b>	Period ended 31 December 2006
	<b>£m</b>	£m
Operating profit	-	-
Increase in intercompany receivables	(10.4)	-
Increase in intercompany payables	31.2	-
<b>Net cash inflow from operating activities</b>	<b>20.8</b>	<b>-</b>

**TRAVELODGE LIMITED**

**THREE YEAR FINANCIAL SUMMARY  
SEGMENTAL ANALYSIS OF RESULTS**

**Before exceptional items**

		12 months ended 31 December 2007	Proforma 12 months ended 31 December 2006	Proforma 12 months ended 31 December 2005
		£m	£m	£m
<b>Revenue</b>				
Travelodge	- UK	241.0	201.2	171.8
	- Spain	2.3	1.8	1.0
	- Ireland	0.5	0.5	0.5
		<b>243.8</b>	<b>203.5</b>	<b>173.3</b>
<b>EBITDAR<sup>1</sup></b>				
Travelodge	- UK	114.8	92.6	77.4
	- Spain	0.7	0.3	-
	- Ireland	0.5	0.5	0.5
		<b>116.0</b>	<b>93.4</b>	<b>77.9</b>
<b>EBITDA (before IAS 17 non-cash rent)<sup>2</sup></b>				
Travelodge	- UK	55.7	46.5	39.1
	- Spain	(0.4)	(0.8)	(0.8)
	- Ireland	0.5	0.5	0.5
		<b>55.8</b>	<b>46.2</b>	<b>38.8</b>

1 - Earnings before interest, tax, depreciation, amortisation and rent.

2 - Earnings before interest, tax, depreciation and amortisation.

<b>Number of hotels:</b>				
Owned	- UK	316	293	267
	- Spain	3	3	2
	- Total	<b>319</b>	<b>296</b>	<b>269</b>
Franchised	- Ireland	9	9	9
	- Other	3	3	3
	- Total	<b>12</b>	<b>12</b>	<b>12</b>
<b>Total hotels</b>		<b>331</b>	<b>308</b>	<b>281</b>
<b>Number of rooms:</b>				
Owned	- UK	21,340	18,887	16,421
	- Spain	236	236	153
	- Total	<b>21,576</b>	<b>19,123</b>	<b>16,574</b>
Franchised	- Ireland	625	625	625
	- Other	173	173	173
	- Total	<b>798</b>	<b>798</b>	<b>798</b>
<b>Total</b>		<b>22,374</b>	<b>19,921</b>	<b>17,372</b>