Company Registration No. 08170768

THAME AND LONDON LIMITED

Report and financial statements

For the year ended 31 December 2019

Our Mission

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

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

Index

Strategic Report

Governance

Financial Statements

Strategic Report

Highlights

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

Total revenue

£727.9m

(2018: £693.3m)

+5%

EBITDA (adjusted) [4]

£129.1m

(2018: £122.0m)

+5.8%

Underlying operating profit [6]

£64.7m

(2018: £61.3m)

+5.5%

Statutory loss before tax [7]

£(72.5)m

(2018: £(5.1)m)

Given our status as a business emerging from restructuring in private ownership, we have elected to maintain leverage levels in order to support further reinvestment in the business over the last 7 years. 2019 statutory results are also significantly impacted by the adoption of IFRS 16.

2019 Performance Headlines

- **Total revenue up 5.0%** to £727.9m (2018: £693.3m)
- RevPAR[1] up 0.3% to £41.75 (2018: £41.62)
- **RevPAR growth 2.3pts ahead** of competitive segment [2]
- Occupancy[1] up 2.1pts to 80.6%
- Average room rate[1] down (2.3)% at £51.82 (2018: £53.01)
- EBITDA[3] £341.3m (under IFRS 16)
- **EBITDA (adjusted)[4] up £7.1m** to £129.1m
- **14 new hotels** opened in the year
- **Cash position** - £89.2m at 31 December 2019 (2018:£81.8m)
- 495 hotels achieving TripAdvisor rating of 4 stars (2018: 444)
- „SuperRooms" trading strongly in 51 hotels
- Network size increased by 2.3% to 588 hotels/44,832 rooms[5]

---

[1] Revenue per available room, Average room rate and Occupancy on a UK like-for-like basis
[2] Our competitive segment is the Midscale and Economy Sector of the UK hotel market as reported by Smith Travel Research (STR), an independent hotel research provider, providing aggregate benchmarking information on the UK and other hotel market performance
[3] EBITDA = Earnings before interest, tax, depreciation, amortisation and non-underlying items presented on an IFRS basis – including IFRS 16
[4] EBITDA (adjusted) = Earnings before interest, tax, depreciation and amortisation, and before rent free adjustment, non-underlying items and reflective of the position in line with the accounting principles applicable to the previous year for purposes of comparability (before IFRS 16). Non-underlying items have been removed as they relate to non-recurring, one-off items
[5] Increase in rooms from 31 December 2018 to 31 December 2019
[6] Underlying operating profit = Earnings before interest, tax and non-underlying items and reflective of the position in line with the accounting principles applicable to the previous year for purposes of comparability (before IFRS 16). Non-underlying items have been removed as they relate to non-recurring, one-off items
[7] Statutory loss before tax includes the impact of IFRS 16 in 2019

Chairman's Statement

Overview

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

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

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

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

Governance and the Board

There have been a number of changes to the composition of the Board in the year:

- In August, Gregory Olafson resigned from the Board as the representative from Goldman Sachs. We are extremely grateful to Greg for the support he gave to the Travelodge Group during his time as a director and we wish him well going forward. On the same day, we were delighted to welcome Thomas Hilger as the new Board representative for Goldman Sachs.
- Due to illness, Paul Harvey stepped down from the Board and from his role as Managing Director, Property in September. Our new Property Director, Steven Bennett, joined from Marks and Spencer plc in January 2020 and is now a member of the group operating board.

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

Our reporting against the Wates Principles has been included on pages 32 to 34. Throughout 2019, the Board will continue to review and challenge how the Group can improve engagement with its employees and stakeholders.

Our People

The continued progress on our strategic journey has required the dedication and commitment of the whole team in a challenging, but successful year. Our results this year are a great reflection of all of their hard work and I would like to thank our team members across the business.

Looking ahead

The Covid-19 situation clearly presents significant challenges for the hospitality industry, and while it is still too early to assess the full impact, we do expect it to continue though this year and likely at least into the next. However, we remain confident that the longer-term trends in domestic tourism and infrastructure investment can create significant opportunities for us as the situation begins to return to normal.

Brian J Wallace

Brian Wallace
Chairman
30 July 2020

Chief Executive's Review

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

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

At the end of 2019 our network stood at 588 hotels across the UK, Ireland and Spain and we have opened a further 3 hotels since the year end.

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

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

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

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

The good like-for-like performance, together with the contribution from our recently opened new hotels, including the 14 opened during the year, as well as good growth in our Spanish business, helped increase sales by £35m, or 5.0%.

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

Overall EBITDA (adjusted) was up £7.1m to £129.1m (2018: £122.0m), our sixth year of growth in profitability.

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

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

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

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

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

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

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

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

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

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

We have put in place appropriate liquidity measures and moved immediately to conserve cash as the Covid-19 situation commenced. We drew down £40m from our existing revolving credit facility on 17 March 2020 as well as securing the new £60m revolving credit facility and additional equity commitments of up to £40m, both from existing ultimate shareholders (or affiliates thereof) and completed the CVA.

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

Peter Gowers

Peter Gowers
Chief Executive Officer
30 July 2020

Our Business Model

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

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

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

Who We Are

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

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

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

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

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

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

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

Within our largest market, the United Kingdom (representing 98% of our total revenue in the year ended 31 December 2019), we operated 43,312 rooms (or 97% of total rooms) in 571 hotels, with c. 21% of our rooms located in London and c. 75% located in regional areas across the United Kingdom. The majority of our rooms in the United Kingdom are leasehold, we also operated one hotel under a freehold and 11 hotels under management contracts in the United Kingdom. More than 90% of our UK revenue for the year ended 31 December 2019 was generated from accommodation, with the remainder from food and beverage and retail and other sales. In addition, we had 621 rooms in five leasehold hotels in Spain and operated a further 899 rooms in 12 hotels under franchise in Ireland and Northern Ireland.

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

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

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

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

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

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

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

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

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

Strategic Progress

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

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

At the end of 2019 our network stood at 588 hotels across the UK, Ireland and Spain and we have opened a further 4 hotels since the year end. We have a substantial secure pipeline but expect that the Covid-19 situation will impact the originally scheduled opening dates. We expect to have greater visibility of our revised opening timetable by the year end.

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

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

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

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

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

During that period the business has undergone a significant transformation.

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

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

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

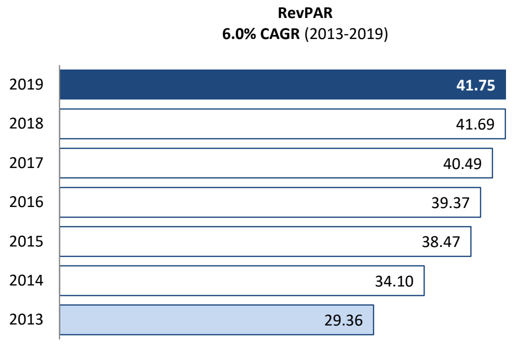
For the communities we serve, we have continued to build our new hotels in a range of architectural styles, to better blend in with the local environment, and the addition of more than 75 new hotels since 2013 has directly created more than 2,000 new jobs right across the UK, with many more indirectly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

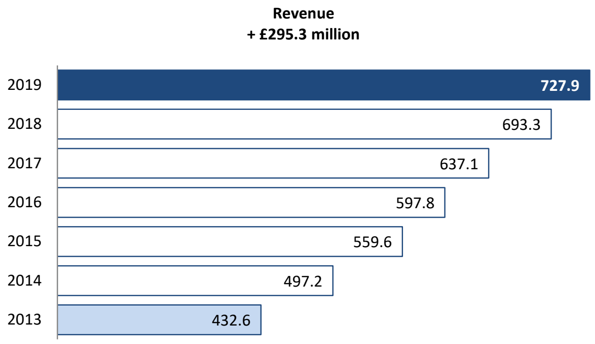
All these changes have helped us to deliver growth in sales, outperformance compared to our rivals and improved profitability for each of the last five years, and we have been ranked as one of Britain's top ten fastest growing private businesses for each of the last three years in the FastTrack survey.

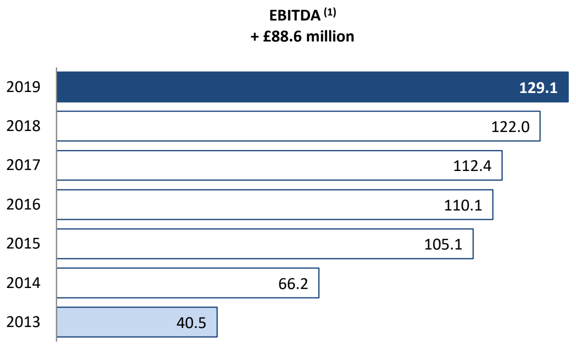
The improvement in our performance is indicated by the growth in our key metrics:

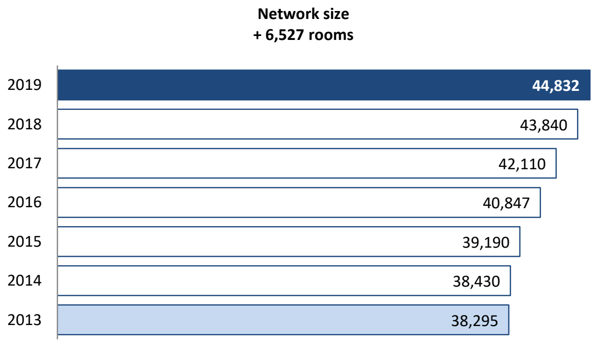
	2013	**2019**	**Increase**
RevPAR	£29.36	£41.75	+ £12.39
Total Revenue	£432.6m	£727.9m	+ £295.3m
EBITDA (adjusted)	£40.5m	£129.1m	+ £88.6m
Network size (rooms)	38,295	44,832	+ 6,537 rooms

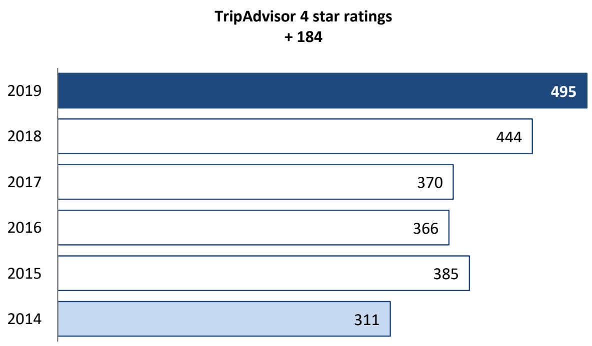
Key Performance Indicators











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

Chief Financial Officer's Report

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

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

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

	Year ended 31 December 2019			Year ended 31 December 2018		
	Comparable to 2018 Reported Results			**2018 Reported Results**	Variance (2018 vs 2019 before IFRS 16[1])	
	Before IFRS 16[1] £m	**IFRS 16 impact** £m	**Statutory** £m	**Statutory** £m	£m	Var %
Revenue by geographical region						
Revenue	**727.9**	**-**	**727.9**	**693.3**	**34.6**	**5.0%**
Revenue UK	713.1	-	713.1	680.1	33.0	4.9%
Revenue International	14.8	-	14.8	13.2	1.6	12.1%
Key income statement items						
Revenue	**727.9**	**-**	**727.9**	**693.3**	**34.6**	**5.0%**
Operating expenses	(390.0)	-	(390.0)	(374.4)	(15.6)	(4.2)%
Of which cost of goods sold	*(43.1)*	-	*(43.1)*	*(42.6)*	*(0.5)*	*(1.2)%*
Of which employee costs	*(173.9)*	-	*(173.9)*	*(165.6)*	*(8.3)*	*(5.0)%*
Of which other operating expenses	*(173.0)*	-	*(173.0)*	*(166.2)*	*(6.8)*	*(4.1)%*
Net external rent payable	(208.8)	212.2	3.4	(196.9)	(11.9)	(6.0)%
EBITDA (adjusted)[2] / EBITDA[3]	**129.1** [2]	**212.2**	**341.3** [3]	**122.0**	**7.1**	**5.8%**
Rent free adjustment[4]	(2.3)	2.3	-	(1.9)	(0.4)	(21.1)%
Depreciation	(44.6)	(117.7)	(162.3)	(42.2)	(2.4)	(5.7)%
Amortisation	(17.5)	11.8	(5.7)	(16.6)	(0.9)	(5.4)%
Operating profit (before non-underlying items)	**64.7**	**108.6**	**173.3**	**61.3**	**3.4**	**5.5%**
Finance costs before investor loan interest	(38.0)	(163.3)	(201.3)	(39.3)	1.3	3.3%
Investor loan interest	(14.3)	-	(14.3)	(14.3)	-	-
Finance income	0.7	-	0.7	0.9	(0.2)	(22.2)%
Profit / (Loss) for the year (before non-underlying items)	**13.1**	**(54.7)**	**(41.6)**	**8.6**	**4.5**	**52.3%**
Non-underlying items	(34.1)	3.2	(30.9)	(13.7)	(20.4)	(148.9)%
Loss for the year before tax	**(21.0)**	**(51.5)**	**(72.5)**	**(5.1)**	**(15.9)**	**(311.8)%**
Income tax	10.3	(5.5)	4.8	0.9	9.4	1044.4%
Loss for the year	**(10.7)**	**(57.0)**	**(67.7)**	**(4.2)**	**(6.5)**	**(154.8)%**

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

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

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

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

Revenue

Revenue increased by £34.6m, or 5.0%, from £693.3m for the year ended 31 December 2018 to £727.9m for the year ended 31 December 2019, with a good contribution from our recently opened new hotels, including the 14 opened in 2019 and the maturing 17 new hotels opened in 2018, including London City which continues to perform strongly.

Like-for-like UK RevPAR growth of 0.3% was ahead of the STR MSE segment by 2.3pts, which showed a decline of (2.0)%. We also achieved good revenue growth in Spain (up 12.1%), delivered through an 11% increase in like-for-like average room rate to €77.25 and a 1.6pt improvement in occupancy levels. UK food and beverage sales benefited from menu optimisation and occupancy growth.

Operating expenses

Operating expenses increased by £15.6m, or 4.2%, from £374.4m for the year ended 31 December 2018 to £390.0m for the year ended 31 December 2019. Cost increases were predominantly driven by increased costs from our new and maturing hotels opened since 2018, together with higher operational costs as a result of the cost pressures facing the sector as a whole and occupancy growth.

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

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

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

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

Net external rent payable

Net external rent payable (before rent free adjustment and before IFRS 16[(1)]) increased by £11.9m, or 6.0%, from £196.9m for the year ended 31 December 2018 to £208.8m for the year ended 31 December 2019. This increase was due to 14 new hotel openings during the year, the annualisation of new hotel openings in 2018 and upwards only rent reviews predominantly linked to RPI.

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

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

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

Depreciation / amortisation

Depreciation (before IFRS 16[(1)]) increased by £2.4m, or 5.7%, from £42.2m for the year ended 31 December 2018 to £44.6m for the year ended 31 December 2019. This is mainly due to new hotel openings and ongoing investment in the maintenance and refurbishment of our estate, including upgrading our hotels to offer SuperRooms, Travelodge Plus and improved Wi-Fi. Energy efficiency investments, principally in LED lighting and heating controls, continued throughout the year and also contributed to the increased depreciation charge.

Amortisation (before IFRS 16[(1)]) increased by £0.9m, or 5.4%, from £16.6m for the year ended 31 December 2018 to £17.5m for the year ended 31 December 2019. This is mainly due to ongoing website development.

Following the adoption of IFRS 16 on 1 January 2019, depreciation has increased by £117.7m, reflecting a charge for the right of use assets, and amortisation has decreased by £(11.8)m, reflecting a reclassification of leasehold premiums to right of use assets.

Finance costs
Finance costs before investor loan interest (before IFRS 16[(1)]) decreased by £1.3m, or 3.3%, from £39.3m for the year ended 31 December 2018 to £38.0m for the year ended 31 December 2019. This decrease was primarily due to the lower bond interest costs following the refinancing in July 2019, partially offset by the impact of an increase in LIBOR.

Following the adoption of IFRS 16 on 1 January 2019, a notional additional finance cost of £163.3m has been incurred relating to the lease liabilities.

Finance income
Finance income of £0.7m for the year ended 31 December 2019 was bank interest received. Finance income of £0.9m for the year ended 31 December 2018 was also bank interest received and included amounts received in respect of 2017.

Non-underlying items
Non-underlying items (before taxation and the impact of IFRS 16[(1)]) of £34.1m for the year ended 31 December 2019 includes £15.0m for the impairment of intangible assets and property plant and equipment, together with a net onerous lease provision reassessment of £3.0m and £0.8m related to management incentives with respect to the restructuring of the Group"s debt and other exceptional corporate activities, together with break costs of £9.9m and charges of £5.4m relating to the write off of unamortised loan issue costs following the repayment of the fixed rate and floating rate bonds.

The application of IFRS 16 results in non-underlying items reducing by £3.2m, due mainly to the reversal of the net onerous lease provision reassessment of £3.0m as rent is no longer charged under IFRS 16, together with a £0.2m reduction to the impairment charge given the different basis of impairment testing, bringing the total statutory impairment charge to £14.8m for the year. Statutory non-underlying items (before taxation) consist of the £14.8m impairment charge together with the £16.1m of items in connection with the restructuring of the Group"s debt which are unaffected by the adoption of IFRS 16.

Non-underlying items (before taxation) of £13.7m for the year ended 31 December 2018 included £6.7m for the impairment of fixed assets, £6.6m for charges in respect of the costs of early redemption (which includes a charge of £0.5m relating to the release of prepaid fees following the partial repayment of the fixed rate bond), legal and advisors" fees and management incentives relating to the restructuring of the Group"s debt, and other exceptional corporate activities. Also included is £3.4m of additional provisions recognised, less a provision reassessment release of £2.3m, a £0.8m loss relating to the surrender of the lease at the closed Gatwick Airport hotel and an inflow of £1.5m relating to the surrender of the lease at Cambridge Lolworth.

Loss Before Tax
Statutory loss before tax is £72.5m for the year, £67.4m higher than the previous year. This is mainly driven by the adverse non-cash impact of IFRS 16 this year of £54.7m and additional non-underlying costs compared to the prior year. The increase in non-underlying costs of £17.2m comprise an increase of £8.1m in respect of cash costs mainly related to the refinancing and £9.1m non-cash costs mainly due to impairment charges, compared to the previous year.

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

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

There was an overall income tax credit of £4.8m for the year ended 31 December 2019 (current tax credit: £1.4m; deferred tax credit: £3.4m). There was an overall income tax credit of £0.9m for the year ended 31 December 2018 (current tax charge: £1.9m; deferred tax credit: £2.8m).

The current tax credit of £1.4m for the year ended 31 December 2019 arose as a result of a prior year adjustment of £1.6m (credit), partially offset by a £0.2m current year overseas tax charge relating to taxable profits arising from Spanish operations and is not impacted by IFRS 16.

The deferred tax credit of £3.4m for the year ended 31 December 2019 comprises a current year credit of £2.7m and a £0.7m credit from the effect of changes in tax rates. The deferred tax credit of £3.4m primarily arises as a result of the recognition of a deferred tax asset this year in respect of Spanish historic losses.

Cash tax payments of £1.4m (UK £0.8m, Spain £0.6m) were made during the year (2018: £0.7m).

IFRS 16
As a result of the adoption of IFRS 16 from 1 January 2019, rent payable for operating leases of £212.2m, the rent free adjustment of £2.3m and amortisation of lease premiums of £11.8m have been replaced by depreciation of the right of use assets of £117.7m and a notional financing cost of £163.3m relating to the lease liabilities.

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

Cash flow
As at 31 December 2019, we had cash of £89.2m, an increase of £7.4m compared to £81.8m as at 31 December 2018.

For the year ended 31 December 2019 Net cash generated from operating activities (before IFRS 16[(1)]) of £111.6m (which is after rent paid of £223.9m), was partially offset by net cash used in investing activities of £65.3m, which relate to the purchase of intangible and tangible fixed assets of £65.9m less interest received of £0.6m, and net cash used in financing activities (before IFRS 16[(1)]) of £38.9m (which excludes rent paid).

Included in net cash used in financing activities (before IFRS 16[(1)]) of £38.9m was the repayment in July 2019 of the existing senior secured 8.5% fixed rate sterling denominated notes of £232.0m and senior secured LIBOR + 4.875% floating rate sterling denominated notes of £195.0m, offset by the issue of new senior secured LIBOR + 5.375% floating rate sterling denominated notes of £440.0m and refinancing transaction costs of £18.5m; together with bond interest payments and finance fees of £28.9m and finance lease interest payments of £4.5m.

Free Cash Flow (as defined in note 29 being EBITDA (adjusted), less Working capital cash flows (before non-underlying items and before IFRS 16[(1)]) and Capital expenditure) decreased from £67.9m for the year ended 31 December 2018 to £55.8m for the year ended 31 December 2019. The year on year increase in EBITDA (adjusted) was more than offset by the adverse timing impact on working capital cash flows as a result of our VAT quarter dates (which are aligned to our 5/4/4 week management accounting periods) and increased Capital expenditure reflecting our refit programme and investments in IT and energy efficiency projects.

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

Our cash cycle reflects the monthly payment of creditors and team members and fluctuates throughout the quarter with rent paid quarterly in advance around the end of each quarter. As a result, our quarterly cash position is generally at a low just after the end of March, June, September and December following payment of the quarterly rent bill, monthly creditor payments and payroll.

The table below sets out certain line items from our consolidated cash flow statement for the year ended 31 December 2019 and the year ended 31 December 2018. In order to allow meaningful comparison to the prior year, the commentary and variances below are presented on a „before IFRS 16(1)" basis.

	Year ended 31 December 2019			Year ended 31 December 2018		
	Comparable to 2018 Reported Results			2018 Reported Results		
	Before IFRS 16(1) £m	IFRS 16 impact £m	Statutory £m	Statutory £m	Variance 2018 vs 2019 before IFRS 16(1) £m	Var %
Net cash generated from operating activities	111.6	223.9	335.5	116.4	(4.8)	(4.1)%
Net cash used in investing activities	(65.3)	-	(65.3)	(58.2)	(7.1)	(12.2)%
Net cash used in financing activities	(38.9)	(223.9)	(262.8)	(71.4)	32.5	45.5%
Net increase in aggregate cash and cash equivalents	7.4	-	7.4	(13.2)	20.6	156.1%
Cash and cash equivalents at beginning of the period	81.8	-	81.8	95.0	(13.2)	(13.9)%
Cash and cash equivalents at the end of the period	**89.2**	**-**	**89.2**	**81.8**	**7.4**	**9.0%**

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

Net cash generated from operating activities

Net cash generated from operating activities (before IFRS 16(1)) decreased by £4.8m, or 4.1%, from £116.4m for the year ended 31 December 2018 to £111.6m for the year ended 31 December 2019. This was due to a £3.1m decrease in operating profit (after non-underlying items, before IFRS 16(1)), a £12.6m decrease in working capital and an increase in corporation tax payments of £0.7m, partially offset by an increase in depreciation and amortisation of £3.3m and an increase in impairment of fixed assets of £8.3m.

Following the adoption of IFRS 16 on 1 January 2019, Net cash generated from operating activities has increased by £223.9m reflecting rent paid on operating leases during the year, which is now reported as Net cash used in financing activities.

Working capital

Inventory primarily includes food and beverage products sold through our bar cafes. Trade and other receivables (before IFRS 16(1)) primarily consist of rent prepayments as we pay quarterly in advance. We have low trade receivables as most of our customers pay at the time of booking, however, business customers taking advantage of our business account card benefit from interest free credit.

Liabilities to trade and other creditors include prepaid room purchases from customers who have yet to stay. Other current liabilities include normal trade creditors, including rent (before IFRS 16(1)), accrued wages and salaries, other current debts and accrued interest and taxes.

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

	Year ended 31 December 2019			Year ended 31 December 2018		
	Comparable to 2018 Reported Results			2018 Reported Results		
	Before IFRS 16[(1)] £m	IFRS 16 impact £m	Statutory £m	Statutory £m	Variance 2018 vs 2019 before IFRS 16[(1)] £m	Var %
Increase in inventory	(0.1)	-	(0.1)	(0.1)	-	-
Increase in receivables	(6.9)	1.4	(5.5)	(4.7)	(2.2)	(46.8)%
Increase / (Decrease) in payables	1.9	5.3	7.2	11.6	(9.7)	(83.6)%
Total working capital movement (before non-underlying items)	(5.1)	6.7	1.6	6.8	(11.9)	(175.0)%
Provisions and non-underlying items	(4.9)	(0.3)	(5.2)	(4.2)	(0.7)	(16.7)%
Total working capital movement	**(10.0)**	**6.4**	**(3.6)**	**2.6**	**(12.6)**	**(484.6)%**

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

Working capital outflow before non-underlying items (before IFRS 16[(1)]) of £5.1m for the year ended 31 December 2019 compared to an inflow of £6.8m for the year ended 31 December 2018 is impacted by the relative timing of our VAT return quarters (which align with our 5/4/4 week management accounting periods). At the end of our third quarter, rents were paid on time, but this fell after the end of our third quarter VAT return period and so the VAT of c. £8m was reclaimed in our fourth quarter VAT return, reducing payables at the year end. The cash impact reversed in the first quarter of 2020.

Working capital outflow for non-underlying items (before IFRS 16[(1)]) of £4.9m for the year ended 31 December 2019 compared to an outflow of £4.2m for the year ended 31 December 2018, mainly impacted by payment of legal and advisors" fees and management incentives relating to the restructuring of the Group"s debt and other exceptional corporate activities.

Following the adoption of IFRS 16 on 1 January 2019, cash flows relating to rent are now reported within Net cash used in financing activities. Under IFRS 16, working capital outflows before non-underlying items reduced by £6.7m due to working capital movements associated with rent payments, to leave a £1.6m inflow.

The £0.3m increase in cash outflows from provisions and non-underlying items under IFRS 16 relates to the reversal of the £3.0m onerous lease provision reassessment offset by the reversal of the £2.7m cash spend on onerous lease provisions, as rent is no longer charged under IFRS 16.

Net cash used in investing activities
Net cash used in investing activities increased by £7.1m, or 12.2%, from £58.2m for the year ended 31 December 2018 to £65.3m for the year ended 31 December 2019, primarily due to changes in capital expenditure.

Capital expenditure
Capital expenditure of £65.9m in the year ended 31 December 2019 has mainly been in relation to on-going maintenance and refits. We expect to refit the entire estate over a 7 to 8 year period, with interim works as appropriate in the heavier use hotels. Investment in IT and energy efficiency projects as well as development pipeline spending, have also contributed to spending.

Net cash used in financing activities
Net cash used in financing activities (before IFRS 16[(1)]) decreased by £32.5m, or 45.5%, from £71.4m for the year ended 31 December 2018 to £38.9m for the year ended 31 December 2019. This was primarily due to the repayment of accrued interest on the investor loan of £34.6m in 2018.

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

In addition, a net inflow of £13.0m from the issue of new floating rate bonds and repayment of the old fixed and floating rate bonds in July 2019, compared to a net inflow of £1.0m from the previous refinancing in 2018 and lower interest costs and finance fees of £3.6m, partially offset by £17.7m additional outflows in relation to refinancing transaction costs.

Following the adoption of IFRS 16 on 1 January 2019, Net cash used in financing activities has increased by £223.9m reflecting rent paid during the year, which was previously reported within net cash generated from operating activities.

Corporation tax
Corporation tax payments on account of £1.4m (UK £0.8m, Spain £0.6m) were made in the year ended 31 December 2019 compared to £0.7m in the year ended 31 December 2018.

IFRS 16
Following the adoption of IFRS 16 on 1 January 2019, Net cash generated from operating activities has increased by £223.9m, with a corresponding increase in cash used in financing activities, reflecting rent paid during the year. Actual total pre-tax cash payments relating to operating leases are not impacted by the adoption of IFRS 16.

Funding, Covenant Compliance & Going Concern

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

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

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

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

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

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

The total funding of the Group is summarised below:

	31 Dec 19	31 Dec 18
	£m	£m
Bonds	**432.1**	**420.8**
Unsecured (Loan Notes)	111.3	97.0
Total Funding	**543.4**	**517.8**

As part of the refinancing on 5 July 2019, the revolving credit facility ("RCF") was reduced from £50m to £40m and the letter of credit ("LOC") facility of £30m was retained, with the springing covenant trigger point being increased to 40% utilisation of the full original £80m RCF/LOC facility. The facility was also extended from April 2022 until July 2024.

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

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

Under our current financing structure covenants are generally tested upon the occurrence of an event rather than on an ongoing basis, other than the springing covenant in the RCF/LOC facility, so failure to maintain a specified level of financial health will not cause a default under the Indenture so long as interest payments can be made and the RCF/LOC facility is not utilised by more than 40% (£32m).

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

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

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

Going concern

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Jo Boydell

Chief Financial Officer

30 July 2020

Stakeholder Engagement

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

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

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

The Wates Corporate Governance Principles for Large Private Companies provides a framework for the Group to not only demonstrate how the Board of Thame and London Limited ("the Board") make decisions for the long term success of the company and its stakeholders, but also having regard to how the Board ensures the Group complies with its requirements of Section 172 of the Companies Act 2016. Our reporting against the Wates Principles has been included on pages 32 to 34 and should be read in conjunction with details on the stakeholder groups discussed below.

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

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

Our team
We employ nearly 12,000 colleagues and we gather extensive feedback from our team-members from a range of sources.

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

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

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

We maintain a regular programme of conferences, quarterly senior management meetings and "town hall" meetings during the year which seek to engage and gain feedback from all levels of the business, whilst ensuring the Group"s strategy, purpose and values and reinforced.
We also operate an Equality and Diversity group that recognises the benefits of having a diverse workforce with different backgrounds, solely employed on ability. The group meets quarterly and considers a wide range of topics relating to initiatives and policy.

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

Our community

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

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

Our investors

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

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

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

Sustainability

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

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

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

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

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

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

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

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

Information Security
Travelodge is committed to ensuring that personal data including both our customers and staff members is held in a safe and secure manner.

It is Travelodge policy to manage information in compliance with the General Data Protection Regulations ("GDPR"), which replaced the Data Protection Act (1998) from May 2018. Customer data is used in accordance with our published Privacy Policy, and stored within the EU or in accordance with current EU data governance requirements.

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

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

Greenhouse Gas („GHG") emissions and Environmental statement
Whilst we are not required to comply with the Companies (Directors" Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 („the 2018 Regulations") until next year, we recognise the importance of our impact on the environment and, in line with our Greener Travelodge strategic pillar, have therefore decided to partially adopt this reporting in our 2019 financial statements.

Our net carbon footprint for the 2019 financial year was 58,604 tonnes of carbon dioxide and equivalent gases (CO2e), with an intensity of 80.51 tonnes of CO2e per £million turnover. This represents a 12.2% reduction on our 2018 result.

In line with Companies Act 2006 (Strategic Report and Directors Report) Regulations 2013, we are reporting our greenhouse gas (GHG) emissions as part of our annual strategic report. Our GHG reporting year is the same as our financial year from 31 December 2019 to 31 December 2018.

We have reported on all of the emission sources which we deem ourselves to be responsible for, as required under the Companies Act 2006 (Strategic Report and Directors Report) Regulations 2013. These sources fall within our operation"s control and financial boundaries and include emissions from manufacturing, retail and distribution sites and the operation of our distribution fleet.

		Current reporting year 2019 (tonnes of CO2e)	Comparison reporting year 2018 (tonnes of CO2e) base year	% change 2019 v base year
Scope 1	Emissions from combustion of gas	15,231	14,917	(2.1%)
Scope 1	Emissions from combustion of fuel for transport purposes	1,241	1,266	2.0%
Scope 2	Emissions from purchased electricity	41,632	46,865	11.2%
Scope 3	Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel	500	553	10.6%
Gross Emissions	**Total scope 1 + 2 CO2e emissions**	**58,604**	**63,601**	**7.9%**
Intensity measure	Tonnes of CO2e per £m turnover	80.51	91.74	12.2%

The methodology used to calculate our emissions is based on the UK Government"s Environmental Reporting Guidance (2013) and are in line with the methods used previously for reporting under ESOS and the CRC Energy Efficiency Scheme. Emissions factors are taken from the UK Government"s GHG Conversion Factors for Company Reporting (2018 & 2019).

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

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

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

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

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

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

Social impact

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

Our team

Nearly 12,000 Travelodge colleagues work together to look after our customers each day. We offer a wide range of roles, including front-line guest service positions and maintenance teams and a range of positions in our support centre.

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

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

New colleagues undergo a training programme to support them in being successful in their role and further training is made available for team members to progress and advance their careers. Over more than thirty years we have helped thousands of people grow their careers and make the journey from entry-level roles to management positions. Our management development programme, 'Aspire' is central to our approach, helping Team Members to acquire practical supervisory and management skills and to secure promotion. Our colleagues develop further through on the job training.

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

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

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

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

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

Gender Diversity

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

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

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

Breakdown as at 31 December 2019:

	Female	**Male**
Board*	33%	67%
Senior Management (Ops Board)	43%	57%
Other	73%	27%
Total	**73%**	**27%**

** in addition there are 3 male non-executive Directors who are not employed by the Group.*

Pensions

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

Human Rights

Travelodge firmly supports and endeavours to carry out its business in a manner compatible with the protection of individuals" human rights. The Company does this through its compliance with relevant legislation and through an insistence on ethical business practices. Where relevant Travelodge Hotels Limited has company policies that reflect the rights granted to individuals under the Human Rights Act 1998 as well as the UK Modern Slavery Act 2015. This included such areas as treatment and non-discrimination, data protection, equality and diversity and health and safety. Our statement as required by the Modern Slavery Act is available on our website.

Accessibility

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

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

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

Anti-corruption & Anti-Bribery

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

Local Community

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

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

Principal risks and uncertainties

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

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

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

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

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

	Principal Risk	Description	Key Mitigations	Change
Operational	COVID-19	In line with the UK Government"s mandatory closure of all hotels and restaurants, the majority of the Group"s hotels closed in March 2020 and have only started to reopen from July 2020. There is significant uncertainty about the on-going impact and duration of the current Covid-19 pandemic and what continued Government support will be available. Even after restrictions are lifted there is a risk of a recession in the UK possibly reducing demand from our customers. Customers may also become reticent about socialising in public settings. Whilst we are not currently able to assess the full financial impact of COVID-19 we anticipate a significant decline in EBITDA and cashflow. There is a risk we may not pass our covenant tests linked to our borrowings and also that the reduction of site profitability results in the impairment of sites. Due to the majority of our central office teams working remotely there is an increased risk of cyber threats including phishing.	The Group has implemented a recovery plan including actions already taken by management to enable the business to successfully trade through the impact of Covid-19, these involve a number of key components including: - continued action by the company to preserve cash flow with all discretionary spend halted and all non-essential capex deferred; - making use of government measures where possible including furloughing more than 8,000 team members through the second quarter under the Job Retention Scheme and benefiting from the Hospitality Business Rates Relief programme; - drawing down on our existing facilities; - accessing new facilities and equity contributions; and - Travelodge Hotels Limited agreeing a Company Voluntary Arrangement ("CVA"). For further details see the CFO Report. We have reinforced good cyber security practice during the period since our central office was closed and have continued to review the risk of cyber threats since that time.	↑
	Liquidity	The company operates a highly operationally and financially geared leasehold model, with high levels of fixed costs (including rent), and is funded mainly by publicly traded bonds. Liquidity has become critical for the Group since the hotel closures in March 2020 due to the COVID-19 pandemic. A lack of appropriate levels of covenant headroom, cash resources, or inadequate cost controls could impact our financial performance.	The Group has implemented a recovery plan including securing additional financing and a waiver for covenants attached to its existing financing, for further details see the CFO Report and the Post Balance Sheet Event note 23. More regular financial forecasting is being undertaken during this period of uncertainty and the Group"s 5 year strategic plan will be reviewed to account for the impact of COVID-19.	↑

	Principal Risk	Description	Key Mitigations	Change
Operational	Network	As part of the recovery plan the Group successfully completed a Company Voluntary Arrangement in June 2020, under the terms of the CVA, Category A landlords will receive their full rent and are not entitled to a break clause. Landlords of Category B, C1 and C2 hotels have the option to exercise a break right under their leases. This break right must be exercised by 20 November 2020 in the case of Category B hotels and by 31 December 2021 in the case of Category C hotels. There is a risk that our network is materially reduced, affecting future profitability.	No single landlord owned assets accounting for more than 10% of the Company"s hotel level EBITDA in 2019, no individual property with break rights accounted for more than 1% of its 2019 hotel level EBITDA and there were only 24 hotels that individually accounted for more than £1m in 2019 hotel level EBITDA, all but one of which were categorised as Category A and therefore do not have break rights. Any landlord seeking to exercise a break right will wish to consider the likelihood of a rival operator outperforming Travelodge (which has delivered class leading growth for the last five years in a row), the likely costs to switch brand (which are likely to be significant and disruptive) and the financial strength of the rival operator (which will need to be assessed against Travelodge"s new additional funding and temporary reduced rents).	↑
	Attraction of people	We employ nearly 12,000 people, particularly team members, assistant hotel managers and hotel managers. Market forces and particularly the impact of Brexit may result in a shortage of available workforce.	See details of how we manage our social impact and our team on pages 25 and 26.	→
	Competition	Our competitors could adjust their room rates, adversely impacting demand for our rooms.	See details of our strategy and our mission to deliver affordable travel for everyone on pages 8 and 9.	→
	Cyber and data	Our data and systems are exposed to external threats such as hackers or viruses. These could lead to data breaches, or disruption to our operation.	We manage information in compliance with relevant Data Protection regulations including the Data Protection Act (2018). The Company reviews general data security regularly and invests in proportionate and appropriate resource, systems and processes to endeavour to ensure the security of its systems, its customer, card data, and its compliance with the regulatory requirements of both PCI DSS and data protection regulations. We have invested in cyber insurance to mitigate the consequences of major unforeseen, or unavoidable service disruptions which might be caused by a cyber-related incident.	↑
	Loss of supplier	Travelodge is reliant on third parties for services, we become more exposed to their business interruption risks. This could impact on our ability to trade.	We maintain regular communications with existing suppliers and review their business continuity and disaster recovery plans. Where possible we ensure contingency supply options are available if required.	→

	Principal Risk	Description	Key Mitigations	Change
Strategic	Macroeconomic	The wider economy may suffer from adverse events which indirectly reduce the demand for our rooms or increase our costs, including pandemics, terrorism events, increases in inflation or interest rates or Brexit.	The Directors have reviewed the Group"s financial projections for the foreseeable future, and in particular, the occupancy and rate forecasts which have been stress tested with plausible but pessimistic changes to those assumptions including macroeconomic shocks.	↑
	Climate Change	Climate change, biodiversity depletion and environmental pollution present risks to the business from a financial, operational and reputational perspective. Regulatory action to manage climate change could result in the introduction of additional taxes or restrictions being imposed.	We are have engaged an external advisor to establish a current baseline and develop a sustainability strategy to facilitate future reduction. We are already in the process of actively reducing our carbon footprint through certain projects detailed on page 24.	↑

GOVERNANCE

Corporate Governance

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

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

Principle	How has Travelodge applied it
Principle One: **Purpose and Leadership** An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.	We have a clear strategy of becoming the "Favourite Hotel for Value" which defines our purpose and behaviours. Our purpose is provide affordable travel for everyone. We are the low-cost choice and aim to offer our customers the right balance of location, price and quality for their travel needs. Travelodge"s purpose and behaviours were initially set in 2013, under the Boards direction, to guide the organisation's strategy, decisions, processes and culture and have been updated in 2019 as we have progressed implementation of the strategy. The purpose is communicated through the annual group conference and quarterly leadership events. As part of this the Group promotes amongst other things: a positive health and safety culture, an Equality and Diversity group, a Health and Wellbeing programme including employee assistance and a charity partnership with The British Heart Foundation.
Principle Two: **Board Composition** Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.	The Group has a separate Chairman and Chief Executive to ensure that the balance of responsibilities, accountabilities and decision making across the Group are effectively maintained. The Chairman plays a pivotal role in creating the conditions for overall Board and individual director effectiveness. The Board comprises a Chairman, Chief Executive, Chief Financial Officer and three owner appointed directors who are not involved in the executive management of the Group (see pages 35 and 36). Two of these Non-Executive Directors are appointed from within the owner entities they represent and the other is appointed by one of the owner entities, but works externally to their business. We are committed to further improving diversity of our board as opportunities arise, within the constraints of our articles of association, which provide that the majority of our board-members are direct representatives of our shareholders, and therefore not appointed by the company. The Non-Executive Director appointed by an Owner, but working externally to their business, brings experience in hospitality, digital, finance and audit, in addition to perspectives and challenge from outside the sectors in which the Group operates. All Directors of the Board have access to company secretarial advice and may, if they wish, take professional advice at the company"s expense. The duties of the Board are executed partially through committees. One or more Board Directors attend and act as chair to the relevant committees, including Audit, Safety, Security and Risk, and Investment.

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

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

Board of Directors

Brian Wallace (Chairman)
Brian is an experienced leisure and hospitality executive with a wealth of experience in UK and international business. He joined Travelodge in January 2013.

A qualified accountant, Brian has held senior executive roles with companies including Hilton, Schlumberger and Ladbrokes, as well as non-executive roles at Miller Group, Hays plc, Scottish & Newcastle plc, FirstGroup plc and Softcat plc.

Brian spent 12 years with Hilton, initially as Finance Director, and subsequently as Deputy Chief Executive. During that period, he played a pivotal role in strengthening the balance sheet, expanding the global presence of the Company and ultimately reunifying the Hilton brand through the landmark sale of the business to Hilton Hotels Corporation in America.

Peter Gowers (Chief Executive Officer)
Peter is an experienced Chief Executive with a functional leadership background in strategy, marketing and operations.

Peter joined Travelodge in November 2013, having previously served as Chief Executive of the main market listed real estate investment trust, Safestore Holdings plc.

Prior to Safestore, Peter held a series of senior leadership roles with the international hotel group IHG plc, serving as Chief Executive, Asia-Pacific, and in group roles as Chief Marketing Officer, Head of Global Brand Services and Head of Strategy.

Peter spent his early career with FTSE-30 conglomerate Bass plc and the global consultancy firm, Arthur D. Little.

Peter holds a First Class Honours degree in Law from Oxford University.
Peter became a member of the board of the British Tourism Authority on 6 January 2020.

Jo Boydell (Chief Financial Officer)
Jo joined Travelodge in March 2013, and has broad based finance experience in hospitality, leisure and retail. Jo held senior positions with Hilton Group plc, Ladbrokes plc and the EMI Group and was Finance Director at Mothercare and Snap Equity Ltd, the parent company of Jessops.

As Chief Financial Officer, Jo is responsible for overseeing all of the Company's finance functions, as well as overseeing the legal, procurement and risk functions for the business.

Jo is a Chartered Accountant and holds an Honours degree in Physics from Oxford University.

Jo Boydell joined DFS Furniture plc in December 2018 as an Independent Non-Executive Director and became Chair of their Audit Committee on 1 April 2019.

Thomas Hilger (Non Executive Director, employed by and representing Goldman Sachs)
Thomas is a Managing Director and Co-head of the European Multi-Strategy Investing (MSI) business in the Merchant Banking Division of Goldman Sachs. MSI is a fundamental investing platform that deploys capital in debt and equity securities as well as private instruments traded in the secondary market.

Thomas joined Goldman Sachs in 2006 and worked in the Investment Banking Division covering Financial Institutions from 2006 to 2010 before transferring to the Merchant Banking Division. He holds Masters degrees in Finance and Business Administration from EM Lyon, France, and WHU Otto Beisheim School, Germany.

Jonathan Ford (Non Executive Director, employed by and representing Avenue Capital Group)
Jonathan is a Senior Portfolio Manager and Co-Head of Europe Strategy, with joint responsibility for directing the investment activities of the Avenue Europe Strategy.

Prior to joining Avenue in 2009, Jonathan was the Head of European Research based in London for the Distressed Products Group at Deutsche Bank, focused on European distressed and special situations investments across the capital structure. Previously, Jonathan was an Assistant Director in the Corporate Restructuring Group at Close Brothers Group, where he worked on a number of high profile European restructuring and distressed mergers and acquisitions transactions. Prior to joining Close Brothers Group, Jonathan was an Assistant Manager in the Banking & Capital Markets division of PricewaterhouseCoopers (London).

Jonathan received a B.S. in Economics from the University of Birmingham (1996).

Stephen Shurrock (Non-Executive Director, representing GoldenTree Asset Management, and Chair of Audit Committee)
As CEO of Lebara, Stephen is responsible for the operations across the group and leading a team to deliver great value mobile services to its millions of customers. Lebara operates across a number of European countries and in the Middle East.

Prior to joining Lebara, Stephen was Chief Commercial Officer of Travelport where he led Travelport's customer focused teams in Air, Agency, Hospitality and Digital Media. Travelport operates a Travel commerce platform across the world. Prior to this, Stephen worked in the mobile telecoms sector for 15 years at O2/Telefonica. Here he was the Chief Executive Officer of its consumer division across Europe and Latin America and focused on growing its digital businesses. Prior to that, he was the Chief Executive Officer of O2 Ireland and the Sales Director of O2UK.

Directors' Report

The Directors present the Directors Report for the audited consolidated accounts for Thame and London Limited for the year ended 31 December 2019.

Directors
The Directors who served during the period and up to the date of the report are detailed on pages 35, 36 and 39.

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

For 2019, the Group made EBITDA (adjusted) [(1)] of £129.1m (2018: £122.0m), Operating Profit of £157.7m (2018: £49.0m) and a Loss Before Tax of £72.5m (2018: £5.1m).

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

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

GoldenTree Asset Management is a global asset management firm that specialises in opportunities across the credit universe in sectors such as high yield bonds, leveraged loans, distressed debt, structured products, emerging markets, private equity and credit-themed equities. The firm was founded in 2000 with offices in New York, London, Singapore, Sydney, Tokyo and Dublin, and manages approximately $33 billion in assets under management.

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

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

Details of the executives who have responsibility for oversight of the Group on behalf of the funds can be found on page 36.

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

The strategic report discusses the Groups corporate governance arrangements in the section "Corporate Governance" on pages 32 to 34.

Statement with respect to Employee Engagement
The strategic report discusses the Groups approach with respect to employee engagement in the section entitled "Stakeholder Engagement" on pages 21 and 22, and further clarity is provided as part of the discussion with respect to the application of Principle 6 of the adopted Wates principles on corporate governance in the section "Corporate Governance" on pages 32 to 34.

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

Statement with respect to Business Relationships
The Strategic report discusses the Groups approach toward individual stakeholders and further clarity provided as part of the section entitled "Stakeholder Engagement" on pages 21 and 22.

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

Insurance
The Group maintains qualifying third party indemnity insurance in respect of Directors and Officers against any such liabilities as referred to in Section 234 of the Companies Act 2006.

Taxation
The underlying current tax credit for 2019 of £4.8m (2018: £0.9m) breaks down between a current tax credit of £1.4m (2018: £1.9m charge) and a deferred tax credit of £3.4m (2018: £2.8m).

Cash tax payments of £1.4m were made during the year (2018: £0.7m).

Dividend
The Directors do not recommend the payment of a dividend.

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

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

Jo Boydell
Chief Financial Officer
30 July 2020

THAME AND LONDON LIMITED

OFFICERS AND PROFESSIONAL ADVISORS

DIRECTORS

Joanna Boydell	
Jonathan Ford	
Peter Gowers	
Paul Harvey	(Resigned 16 September 2019)
Gregory Olafson	(Resigned 16 August 2019)
Stephen Shurrock	
Brian Wallace	
Thomas Hilger	(Appointed 16 August 2019)

COMPANY SECRETARY
Joanna Boydell
Katherine Thomas

REGISTERED OFFICE
Sleepy Hollow
Aylesbury Road
Thame
Oxfordshire
OX9 3AT

BANKERS
Barclays PLC
1 Churchill Place
London
E14 5HP

SOLICITORS
Addleshaw Goddard
Milton Gate
60 Chiswell Street
London
EC1Y 4AG

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

THAME AND LONDON LIMITED

Statement of Directors' Responsibilities

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

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

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

The directors are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The directors are responsible for the maintenance and integrity of the parent company“s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Jo Boydell
Chief Financial Officer
30 July 2020

Independent auditors' report to the members of Thame and London Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- Thame and London Limited's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's loss and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and financial statements (the "Annual Report"), which comprise: the consolidated and parent company balance sheets as at 31 December 2019; the consolidated income statement and statement of comprehensive income, the consolidated cash flow statement, and the consolidated and parent company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Material uncertainty related to going concern – Group and Parent company

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

What audit procedures we performed

In concluding there is a material uncertainty, our audit procedures included:

- obtaining management's paper that supports the directors' assessment and conclusions with respect to the going concern status of the Group;
- challenging management to produce forecasts under a range of challenging scenarios worst-case scenarios, including 'severe but plausible';

- discussing with management the impact assessments applied in the going concern review so we could understand and challenge the rationale for those assumptions, using our knowledge of the business, the sector and wider commentary in the market;
- evaluating monthly trading results to June 2020, considering the impact of these actual results on the future forecast period;
- understanding and obtaining sufficient evidence for the mitigating actions taken by management, including furloughing employees, drawing down on the existing credit facility, agreeing revised covenant terms, securing an equity commitment of up to £40m from the shareholders and entering into a new £60m super senior revolving credit facility;
- reading all of the agreements to ensure that the funds are committed or to understand the conditionality;
- assessing the availability of liquid resources under different scenarios modelled by management; and
- assessing the disclosures in the financial statements and agreeing changes with management to reflect the key material uncertainty.

Our audit approach

Overview

- Overall group materiality: £3.2 million (2018: £3.1 million), based on 2.5% of EBITDA (adjusted).
- Overall parent company materiality: £1.1 million (2018: £1.0 million), based on 1% of total liabilities.

- The focus of our work was over the main trading entity Travelodge Hotels Limited.
- In addition, we have performed full scope audits of all UK and Jersey statutory entities consolidated into the Group accounts.
- We have performed desktop review procedures on the immaterial Spanish and Maltese entities.

- Key judgements and estimates relating to the first-time adoption of IFRS 16.
- Impairment of fixed and right-of-use assets.
- Material uncertainty related to going concern.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Key audit matter	*How our audit addressed the key audit matter*
Key judgements and estimates relating to the first-time adoption of IFRS 16 IFRS 16 is a new accounting standard, effective for accounting periods commencing on or after 1 January 2019, which has brought a right-of-use (ROU) asset and corresponding lease liability onto the balance sheet for almost all lease contracts held by Thame and London Limited ("the Group"). This standard has had a significant impact on the Group financial statements. Thame & London Limited have chosen to adopt the modified retrospective approach to the implementation of IFRS 16, calculating opening balances based on discounted future lease liabilities as at 1 January 2019, rather than calculating balances from the commencement of the lease. They have implemented a new system in order to do this (Reportwise). The key judgements and estimates that impact the valuation of the ROU asset and lease liability include the discount rates, what meets the definition of a lease, and the lease term.	At the date of transition, 1 January 2019, we performed the following procedures: • Reviewed the disclosure in the FY18 financial statements and compared to the requirements of IFRS 16; • Tested management's key estimates and judgements and agreed these through to what was disclosed; • Agreed the figures through to underlying workings and Reportwise output; • Understood the process for implementing Reportwise, and tested the inputs to the system by agreeing data points back to leases; and • Re-performed the ROU asset and lease liability calculation, and compared our result to the Reportwise output, investigating any material differences. This year we have reviewed the key judgements and estimates management have made in arriving at the figures per IFRS 16. We have performed the following procedures to ensure that the requirements of IFRS 16 have been appropriately implemented: • Understood and tested all material movements in the ROU asset and lease liability since implementation on 1 January 2019; • Tested all new leases, agreeing data points back to lease documents; • Worked with our Valuations colleagues to evaluate management's discount rate and the appropriateness of the methodology used to derive it; • Tested management's impairment assessment (see below); and • Challenged management on the presentation and disclosure of the impact of IFRS 16 in the Group financial statements. From the above, we are comfortable that the requirements of IFRS 16 have been implemented appropriately and that the related disclosures are free from material misstatement.
Impairment of fixed and right-of-use assets Management have performed a full fixed asset impairment review, both at the date of transition to IFRS 16 and at the year end date. The right of use asset recognised on transition has been tested for impairment in accordance with IAS 36, with each hotel being considered a separate cash-generating unit (CGU) except for group of assets previously sold together in a sale and leaseback transaction, which is	We have performed the following procedures to address this key audit matter: • Tested the mathematical accuracy and the assumptions within the impairment models prepared by management at the date of transition (1 January 2019) and the year end date. • Tested the completeness of the model by obtaining and assessing the explanations for

Key audit matter	How our audit addressed the key audit matter
treated as a single CGU. As several of the hotels had a value in use below the value of the ROU asset in that review, an impairment charge of £37.2m has been recognised as a transition adjustment in reserves. A further £14.8m was impaired as at 31 December 2019, reflecting poor performance during the year. This has been taken to non-underlying items in the Consolidated Profit and Loss.	why certain sites were not impaired, particularly if they were loss making in the prior year. • Evaluated the directors' future cash flow forecasts and the process by which they were drawn up, including comparing them to the latest Board-approved budgets. • Checked management's historic forecasting accuracy; • Challenged management's key assumptions for: - short-term sales growth rates and profit margins in the forecasts by comparing them to short-term historical results and economic industry forecasts - long-term growth rates in the forecasts by comparing them to long-term historical results and economic industry forecasts; - dilapidations cost, ensuring that it was considered as a relevant cash flow necessarily incurred at the end of the lease term; and - the discount rate, by assessing the cost of capital for all cash generating units (CGUs), using our specialist valuations knowledge and comparing the Group's key inputs to externally derived data. Using our own independent analysis, we performed sensitivity analysis around the key drivers of the value in use, which were: • the discount rate; and • the projected EBITDA margins From the above procedures, we are comfortable that the impairment charge booked to reserves on transition to IFRS 16 and the charge booked in the year are both appropriate.
Material uncertainty related to going concern Management and the Board have considered the potential impact of the Covid-19 global pandemic on the current and future operations of the Group. In doing so, management has had particular focus on the Group's ability to continue as a going concern. Management's assessment of going concern is explained in note 2 to the financial statements.	Our work and conclusions reached in respect of going concern are detailed within the "Material uncertainty related to going concern" section above.

We determined that there were no key audit matters applicable to the parent company to communicate in our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the parent company, the accounting processes and controls, and the industry in which they operate.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	***Parent company financial statements***
Overall materiality	£3.2 million (2018: £3.1 million).	£1.1 million (2018: £1.0 million).
How we determined it	2.5% of EBITDA (adjusted).	1% of total liabilities.
Rationale for benchmark applied	Earnings before interest, tax, depreciation and amortisation, and before rent free adjustment, non-underlying items is reflective of the position in line with the accounting principles applicable to the previous year for purposes of comparability. Non-underlying items have been removed as they relate to non-recurring, one-off items.	We believe that total liabilities is the key performance benchmark of the parent company, as it is a holding company for the group and does not trade.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £1.1 million and £3.0 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £160,000 (Group audit) (2018: £154,000) and £50,000 (Parent company audit) (2018: £50,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the Financial Statements set out on page 40, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Nigel Reynolds (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 July 2020

		Year ended 31 December 2019						31 December 2018		
		Comparable to 2018 Report Results			IFRS 16 impact			2018 Reported Results		
		Underlying before IFRS 16 (1)	Non-underlying before IFRS 16 (1)	Total before IFRS 16 (1)	IFRS 16 impact	Non-underlying IFRS 16	Statutory	Underlying	Non-underlying	Statutory
	Note	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue	4	727.9	-	727.9	-	-	**727.9**	693.3	-	**693.3**
Operating Expenses	6/7	(390.0)	(0.8)	(390.8)	-	-	**(390.8)**	(374.4)	(5.2)	**(379.6)**
Rent	6/7	(211.1)	(3.0)	(214.1)	214.5	3.0	**3.4**	(198.8)	(0.4)	**(199.2)**
EBITDA	4	**126.8**	**(3.8)**	**123.0**	**214.5**	**3.0**	**340.5**	**120.1**	**(5.6)**	**114.5**
Depreciation, Amortisation & Impairment	6/7	(62.1)	(15.0)	(77.1)	(105.9)	0.2	**(182.8)**	(58.8)	(6.7)	**(65.5)**
Operating Profit / (Loss)	4	**64.7**	**(18.8)**	**45.9**	**108.6**	**3.2**	**157.7**	**61.3**	**(12.3)**	**49.0**
Finance Costs	7/11	**(52.3)**	(15.3)	(67.6)	**(163.3)**	**-**	**(230.9)**	(53.6)	(1.4)	**(55.0)**
Finance Income	10	0.7	-	0.7	-	-	**0.7**	0.9	-	**0.9**
Profit / (Loss) before Tax	4	**13.1**	**(34.1)**	**(21.0)**	**(54.7)**	**3.2**	**(72.5)**	**8.6**	**(13.7)**	**(5.1)**
Income Tax	12	3.5	6.8	10.3	(5.0)	(0.5)	**4.8**	0.6	0.3	**0.9**
Profit / (Loss) for the Year		**16.6**	**(27.3)**	**(10.7)**	**(59.7)**	**2.7**	**(67.7)**	**9.2**	**(13.4)**	**(4.2)**

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

Memorandum - EBITDA (adjusted) (2)

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
EBITDA (adjusted) (2)	**129.1**	**122.0**
Rent free adjustment (3)	**(2.3)**	**(1.9)**
EBITDA - Underlying before IFRS 16	**126.8**	**120.1**

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Loss for the year	(67.7)	(4.2)
Items that will subsequently be reclassified into profit and loss:		
Movement on fair value of cash flow hedges	(0.4)	(0.1)
Currency translation differences	(0.1)	0.3
Other comprehensive (expense) / income for the year, net of tax	**(0.5)**	**0.2**
Total comprehensive (expense) for the year	**(68.2)**	**(4.0)**

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

	Share Capital £m	Foreign Exchange Reserve £m	Cash Flow Hedge Reserve £m	Accumulated Losses £m	Total Deficit £m
At 1 January 2019	**-**	**(0.3)**	**0.4**	**(93.7)**	**(93.6)**
Adjustment on adoption of IFRS 16 (net of tax)	-	-	-	(179.6)	**(179.6)**
Restated total deficit at 1 January 2019	**-**	**(0.3)**	**0.4**	**(273.3)**	**(273.2)**
Loss for the year	-	-	-	(67.7)	**(67.7)**
Other comprehensive (expense)					
Movement in fair value of hedging derivatives	-	-	(0.4)	-	**(0.4)**
Currency translation differences	-	(0.1)	-	-	**(0.1)**
Total comprehensive (expense)	**-**	**(0.1)**	**(0.4)**	**(67.7)**	**(68.2)**
At 31 December 2019	**-**	**(0.4)**	**-**	**(341.0)**	**(341.4)**

For the year ended 31 December 2018

	Share Capital £m	Foreign Exchange Reserve £m	Cash Flow Hedge Reserve £m	Accumulated Losses £m	Total Deficit £m
At 1 January 2018	**-**	**(0.6)**	**0.5**	**(89.5)**	**(89.6)**
Loss for the year	-	-	-	(4.2)	**(4.2)**
Other comprehensive income / (expense)					
Movement in fair value of hedging derivatives	-	-	(0.1)	-	**(0.1)**
Currency translation differences	-	0.3	-	-	**0.3**
Total comprehensive income / (expense)	**-**	**0.3**	**(0.1)**	**(4.2)**	**(4.0)**
At 31 December 2018	**-**	**(0.3)**	**0.4**	**(93.7)**	**(93.6)**

THAME AND LONDON LIMITED
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2019

	Note	31 December 2019 Comparable to 2018 Reported Results Before IFRS 16 [1] £m	31 December 2019 IFRS 16 impact £m	31 December 2019 Statutory £m	31 December 2018 2018 Reported Results Statutory £m
NON CURRENT ASSETS					
Intangible assets	14	**347.1**	(187.5)	**159.6**	**365.5**
Property, plant and equipment	15	**144.4**	(11.5)	**132.9**	**140.3**
Right of use assets	16	**-**	2,521.3	**2,521.3**	**-**
Deferred tax asset	21	**50.0**	8.9	**58.9**	**47.4**
		541.5	2,331.2	**2,872.7**	**553.2**
CURRENT ASSETS					
Financial derivative asset		**0.3**	**-**	**0.3**	**0.5**
Inventory		**1.2**	-	**1.2**	**1.1**
Trade and other receivables	17	**55.2**	(36.6)	**18.6**	**48.4**
Cash and cash equivalents		**89.2**	-	**89.2**	**81.8**
		145.9	(36.6)	**109.3**	**131.8**
TOTAL ASSETS		**687.4**	2,294.6	**2,982.0**	**685.0**
CURRENT LIABILITIES					
Trade and other payables	18	**(124.4)**	4.7	**(119.7)**	**(133.6)**
Lease liabilities	19	**-**	(47.6)	**(47.6)**	**-**
Provisions	22	**(1.7)**	1.6	**(0.1)**	**(1.7)**
		(126.1)	(41.3)	**(167.4)**	**(135.3)**
NON-CURRENT LIABILITIES					
Bond related debt	20	**(432.1)**	-	**(432.1)**	**(420.8)**
Investor loan	20	**(111.3)**	-	**(111.3)**	**(97.0)**
Obligations under finance leases	20	**(33.6)**	33.6	**-**	**(32.8)**
Lease liabilities	19	**-**	(2,549.8)	**(2,549.8)**	**-**
Deferred tax liability	21	**(54.1)**	(1.1)	**(55.2)**	**(60.5)**
Accruals	18	**(17.8)**	17.8	**-**	**(15.3)**
Provisions	22	**(17.2)**	9.6	**(7.6)**	**(16.9)**
		(666.1)	(2,489.9)	**(3,156.0)**	**(643.3)**
TOTAL LIABILITIES		**(792.2)**	(2,531.2)	**(3,323.4)**	**(778.6)**
NET LIABILITIES		**(104.8)**	(236.6)	**(341.4)**	**(93.6)**
EQUITY					
Share capital	24	**-**	-	**-**	**-**
Foreign exchange reserve		**(0.4)**	-	**(0.4)**	**(0.3)**
Cash flow hedge reserve		**-**	-	**-**	**0.4**
Accumulated losses		**(104.4)**	(236.6)	**(341.0)**	**(93.7)**
TOTAL DEFICIT		**(104.8)**	(236.6)	**(341.4)**	**(93.6)**

Memorandum - Analysis of net funding

	Note	31 December 2019 Comparable to 2018 Reported Results Before IFRS 16 [1] £m	31 December 2019 IFRS 16 impact £m	31 December 2019 Statutory £m	31 December 2018 2018 Reported Results Statutory £m
Cash at bank		***89.2***	-	***89.2***	***81.8***
External debt redeemable (excluding finance leases)					
Fixed Rate Bond	20	***-***	-	***-***	***(232.0)***
Floating Rate Bond	20	***(440.0)***	-	***(440.0)***	***(195.0)***
Issue costs		***7.9***	-	***7.9***	***6.2***
Gross debt		***(432.1)***	-	***(432.1)***	***(420.8)***
External net debt		***(342.9)***	-	***(342.9)***	***(339.0)***
Investor loan	20	***(111.3)***	-	***(111.3)***	***(97.0)***
Finance leases		***(33.6)***	*33.6*	***-***	***(32.8)***
		(487.8)	*33.6*	***(454.2)***	***(468.8)***
Lease liabilities	19	***-***	*(2,597.4)*	***(2,597.4)***	***-***
Net debt		***(487.8)***	*(2,563.8)*	***(3,051.6)***	***(468.8)***

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

These financial statements of Thame and London Limited on pages 47 to 80 were approved by the Board of Directors and signed on its behalf by:

Joanna Boydell
Director

30 July 2020

Thame and London Limited — Company registration number 08170768

		Year ended 31 December 2019			Year ended 31 December 2018
		Before IFRS 16(1)	IFRS 16 impact	Statutory	Statutory
		£m	£m	£m	£m
CASH GENERATED FROM OPERATING ACTIVITIES	(note 28)	113.0	223.9	336.9	117.1
Corporate tax		(1.4)	-	(1.4)	(0.7)
NET CASH GENERATED FROM OPERATING ACTIVITIES		111.6	223.9	335.5	116.4
INVESTING ACTIVITIES					
Interest received		0.6	-	0.6	0.8
Purchases of property, plant and equipment and intangible assets		(65.9)	-	(65.9)	(59.0)
Net cash used in investing activities		(65.3)	-	(65.3)	(58.2)
FINANCING ACTIVITIES					
Finance fees paid		(0.2)	-	(0.2)	(0.6)
Interest paid		(28.7)	-	(28.7)	(31.9)
Finance lease rental interest payments		(4.5)	4.5	-	(4.5)
IFRS 16 lease rental capital payments		-	(59.3)	(59.3)	-
IFRS 16 lease rental interest payments		-	(169.1)	(169.1)	-
Issue of floating rate bonds		440.0	-	440.0	30.0
Repayment of fixed and floating rate bonds		(427.0)	-	(427.0)	(29.0)
Finance issue transaction costs		(18.5)	-	(18.5)	(0.8)
Repayment of accrued interest on investor loan		-	-	-	(34.6)
Net cash used in financing activities		(38.9)	(223.9)	(262.8)	(71.4)
Net increase / (decrease) in aggregate cash and cash equivalents		7.4	-	7.4	(13.2)
Cash and cash equivalents at beginning of the period		81.8	-	81.8	95.0
Cash and cash equivalents at end of the period		89.2	-	89.2	81.8

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

Memorandum - Analysis of free cash flow [1]	Year ended 31 December 2019	Year ended 31 December 2018
	Before IFRS 16(1)	Statutory
	£m	£m
EBITDA (adjusted)[2]	129.1	122.0
Working capital	(7.4)	4.9
Net cash flows from operating activities - underlying	*121.7*	*126.9*
Capital expenditure	(65.9)	(59.0)
Free cash flow generated for the year	*55.8*	*67.9*
Non-trading cash flow		
Finance fees paid	*(0.2)*	*(0.6)*
Interest paid	*(28.7)*	*(31.9)*
Interest income	*0.6*	*0.8*
Finance lease rental interest payments	*(4.5)*	*(4.5)*
Cash spend on provisions and non-underlying items[3]	*(27.2)*	*(10.6)*
Corporate tax	*(1.4)*	*(0.7)*
Non-trading cashflow	*(61.4)*	*(47.5)*
Cash generated	*(5.6)*	*20.4*
Opening Cash	*81.8*	*95.0*
Movement in cash	*(5.6)*	*20.4*
Net refinancing proceeds	*13.0*	*1.0*
Repayment of investor loan note	-	*(34.6)*
Closing Cash	*89.2*	*81.8*
Opening external net debt	*(339.0)*	*(323.4)*
Net increase / (decrease) in aggregate cash	*7.4*	*(13.2)*
Net refinancing	*(4.4)*	*(1.0)*
Net amortised bond transaction costs	*(6.9)*	*(1.4)*
Closing net debt	*(342.9)*	*(339.0)*

1. Free cash flow is defined as cash generated before interest, non-underlying costs, spend on provisions and financing.
2. EBITDA (adjusted) = Earnings before interest, taxes, depreciation and amortisation, and before rent free adjustment, non-underlying items & reflective of the position in line with the accounting principles applicable to the previous year for purposes of comparability. non-underlying items have been removed as they relate to non-recurring, one-off items.
3. In 2019, cash spend on provisions and non-underlying items (before IFRS 16) of £27.2m included costs of refinancing the Travelodge Group of £18.5m, non-underlying legal and advisors' fees and management incentives relating to the restructuring of the Group's debt and other non-underlying corporate activities of £5.6m and onerous lease provisions of £3.1m. In 2018, cash spend on provisions and non-underlying items of £10.6m includes transaction costs of refinancing the Travelodge Group of £0.9m and other costs of £10.4m, including the costs of early redemption, legal and advisor's fees and management incentives relating to the restructuring of the Group's debt and other non-underlying corporate activities, plus £0.8m relating to the surrender of the lease at the closed Gatwick Airport hotel, partially offset by an inflow of funds related to the surrender of the lease at Cambridge Lolworth of £1.5m

Reconciliation of net cash flows from operating activities before non-underlyings to net cash generated from operating activities (note 28)	Year ended 31 December 2019	Year ended 31 December 2018
	Before IFRS 16(1)	Statutory
	£m	£m
Net cash flows from operating activities before non-underlyings	*121.7*	*126.9*
Cash spend on non-underlying items through profit and loss	-	*0.1*
Cash spend on non-underlying items through working capital[4]	*(8.7)*	*(9.9)*
Cash flows from operating activities	*113.0*	*117.1*
Corporate tax	*(1.4)*	*(0.7)*
Net cash generated from operating activities	*111.6*	*116.4*

4. 2019 cash spend on non-underlying items (before IFRS 16) through working capital of £8.7m included £5.6m cash spend relating to accruals and £3.1m cash spend on provisions. 2018 cash spend on non-underlying items through working capital of £9.9m includes £9.4m cash spend on provisions and £0.5m spend relating to accruals.

1 GENERAL INFORMATION

Thame and London Limited, formerly Anchor UK Bidco Limited (the Company) is a private company limited by share capital and was incorporated in the United Kingdom on 7th August 2012. The Company changed its name from Anchor UK Bidco Limited on 23rd May 2013. The Company is domiciled in the UK. The address of its registered office and principal place of business are disclosed in the introduction to the annual report. The Company acquired the Travelodge business on 12th October 2012. The principal activities of the parent Company and its subsidiaries (together the Group) are disclosed in the Directors' report.

2 SIGNIFICANT ACCOUNTING POLICIES

Going Concern

a) The Group's business activities, together with its financial position, its cash flows, liquidity position and borrowing facilities, are described in the Directors' Report and Strategic Review on pages 2 to 38. In addition, note 20 includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit and liquidity risk.

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

Availability of funding

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

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

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

Cash flow forecasts

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

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

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

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

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

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

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

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

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

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

Basis of Accounting

b) The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRS IC interpretations and the Companies Act 2006 applicable to Group reporting at 31 December 2019.

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

The preparation of financial statements in conformity with IFRS's requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The Group's exposure to interest rate risk, credit risk and liquidity risk is discussed in note 20.

New and Amended standards

The following new and amended standards are effective for the year ending 31 December 2019 and have been adopted in these financial statements:

- IFRS 16, 'Leases'

The group has adopted IFRS 16 Leases from 1 January 2019, but has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard.

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition, the presentation of the Consolidated Cash Flow Statement has been affected. Actual lease payments, which were previously part of Operating Profit / (Loss) or Movements in Payables within Net Cash Generated from Operating Activities, have now been split into a notional repayment of principal lease liability and a notional interest payment within financing activities. Cash flows from Operating Activities has been positively impacted and cash flows from Financing Activities has been negatively impacted. Though presented in different parts of the Consolidated Cash Flow Statement, actual total pre-tax cash payments will remain unchanged.

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

The associated right-of-use assets for the largest property leases were measured on a retrospective basis as if the new rules had always been applied and for the remaining property leases at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. Non-current assets (excluding deferred tax) increased by £2,313m on 1 January 2019, and lease liabilities increased by £2,509m. The net impact on retained earnings on 1 January 2019 was £(180)m after adjustments for prepayments, accruals, onerous lease provisions and deferred tax.

The adoption of IFRS 16 resulted in the following transition adjustment at 1 January 2019:
As at 31 December 2018, the Group had non-cancellable lease commitments of £4,394m.

Reconciliation of opening lease liability at 1 January 2019	Reported as per IAS 17 £m	IFRS 16 discount adjustment[2] £m	Reported as per IFRS 16 £m
Operating lease commitments	4,394	(2,079)	2,315
Existing finance leases	33	-	33
Lease commitments	4,427	(2,079)	2,348
Lessor only extension options[1]	790	(596)	194
Total lease commitments	**5,217**		
Discounted at 7.0%[2]		(2,675)	
Lease liability at 1 January 2019			**2,542**
Comprising:			
Lease liability in respect of leases previously classified as operating leases			2,509
Lease liability in respect of leases previously classified as finance leases			33
			2,542

1 Lessor only extension options relate to additional lease liabilities required to be recognised under IFRS 16, where a landlord has a non-rebuttable option to extend a lease.
2 The discount rate of 7.02% is the weighted average, by lease, of the estimated incremental borrowing rates calculated for each individual lease at transition. The estimated incremental borrowing rate for each lease has been calculated, based on a number of factors, to approximate the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar nature to and value of the right-of-use asset, in a similar economic environment.

The balance sheet impact is further analysed as follows:	**£m**
Right of use asset in respect of leases previously classified as operating leases	2,315
Lease liability in respect of leases previously classified as operating leases	(2,509)
Deferred Tax Asset	13
Adjustment for prepayments, accruals and onerous lease provisions	1
Changes to Equity[3]	(180)

3 The decrease in equity arises from those selected larger right-of-use property assets which have been measured on transition as if the new rules had applied from inception of the lease, rather than equal to the lease liability.

In applying IFRS 16 for the first time, the group performed a retrospective impairment test as at 1 January 2019. The test used an incremental borrowing rate for each identifiable cash generating unit. As a result of this test, the group recognised an impairment loss on transition of £35.7m relating to right-of-use assets. In addition, a reduction of £10.5m was made in respect of onerous leases recognised at the date of adoption (see note 16).

The group also used the following practical expedients permitted by the standard:
• the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
• the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application,
• the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received, and

Variable lease payments

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

Extension and termination options

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

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

New and Amended standards that are not yet effective

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

Basis of consolidation

The consolidated financial statements consolidate the financial statements of the Group and entities controlled by the Group and its subsidiaries up to 31 December 2019. Control is achieved when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Uniform accounting policies are adopted across the Group.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition 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 Group in exchange for control of the acquiree. Any costs directly attributable to the business combination are expensed through the income statement. The acquirer's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (Revised), Business Combinations, are recognised at their fair values at the acquisition date, except for non-current assets (or disposal companies) 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.

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents the amount receivable for goods and services supplied to customers in the normal course of business, net of trade discount and VAT. The Group’s principal performance obligation is to provide budget hotel accommodation and other goods and services to guests. Revenue includes rooms revenue and food and beverage sales, which is recognised when the guests stay. When payment is received at the time of room booking, prior to arrival date, a liability for prepaid room purchases is recognised and held on the balance sheet as a contract liability. Revenue is recognised when the customer stays. A proportion of the prepaid room purchases would be non-refundable on cancellation of the room booking.

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

Non-underlying items

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

Leasing

Effective on 1 January 2019, the Group has adopted IFRS 16, which specifies how to recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all major leases. The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparison information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:
- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while receiving or controlling more than an insignificant benefit from use of the asset;
- the purchaser had the ability or right to control physical access to the asset while receiving or controlling more than an insignificant benefit from use of the asset;
- the facts and circumstances indicated that it was remote that other parties would receive or control more than an insignificant benefit from use of the asset.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Policy applicable from 1 January 2019

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

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

As a lessee

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

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

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

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

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

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

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

Short-term leases and leases of low-value assets

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

Under IAS 17

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

Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.
Assets held under other leases were classified as operating leases and were not recognised in the Group's consolidated balance sheet. Payments made under operating leases were recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As a lessor (before and after 1 January 2019)

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

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

The Group recognises lease payments received under operating leases as income on a straight line basis over the lease term as part of 'other income'.

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

The key sensitivities resulting from estimates in the calculation of the IFRS 16 numbers are:
- the discount rate used

Foreign currencies

Transactions and balances
The presentational currency of the Group is sterling. Foreign currency transactions are translated into sterling using average exchange rates.

Group companies
The presentational currency of the Group is sterling. The results and financial position of Group entities that have a functional currency different from the Group's presentational currency are translated in the consolidated financial statements. Assets and liabilities are translated into sterling at rates prevailing at the balance sheet date. Income statement items are translated at the average rates of exchange. All resulting exchange differences are recognised in other comprehensive income.

Taxation

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

The tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group'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 Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

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

Lease premiums (before IFRS 16)

Values attributed to lease premiums include those values attributed to those hotels in the UK and Spain which were open and operational or under construction at the time of the acquisition of the Travelodge business at 12th October 2012. 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 at 12th October 2012 have been attributed by estimating the net cash flows expected to be received over the lives of the lease agreements. The resulting cash flows were then discounted to the date of acquisition using an expected rate implicit within each lease to determine the net present value.

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

IT software

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

Brand

The brand name acquired through the acquisition of the Travelodge business was 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 using a royalty rate Travelodge would expect to receive on forecast future revenues. This is considered to be the market value that could be achieved. The resulting cash flow was discounted to the acquisition date using the Group's pre-tax weighted average cost of capital. The Group considers the value of the brand name, which was first introduced into the UK in 1985, will be maintained almost indefinitely and is therefore not amortised. The Group 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.

Property, plant and equipment

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

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

- Freehold land is not depreciated.
- Freehold buildings are depreciated to their estimated residual values over periods up to fifty years.
- Long leasehold buildings are depreciated to their estimated residual values over fifty years or, where shorter, their remaining lease periods.
- Fixtures and fittings are depreciated over five years for plant and machinery, fixtures, fittings, equipment and over three years for information technology hardware.
- Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. Under IFRS 16 these have been transferred to right of use assets.

Assets under construction

Assets under construction are not depreciated. Residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible and intangible assets

At each balance sheet date, the Group 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 Group 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 (see also 'Brand' policy above).

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

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

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

Inventory

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

Interest hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Group are recorded at the proceeds received net of any direct issue costs.

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

Trade payables

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

Pension costs

The Group offers a defined contribution scheme to its employees by way of recommending a third party stakeholder scheme with The Scottish Widows plc and the National Employment Savings Trust (NEST). The amount charged to the income statement for this scheme in respect of pension costs and other post-retirement benefits is the contributions payable by the Group in respect of the year. Differences between Group 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 Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Share Capital

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

3 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTIES

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

Brand

The brand name acquired through the acquisition of the Travelodge business was assigned a fair market value at the date of acquisition. The value of the brand name is reviewed annually for impairment. This is 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 using a royalty of 4% on forecast future revenues, which is considered to be the market value that could be achieved. The sales forecast is based on a sales forecast for the period 2020 - 23 and an estimated long term growth rate of 2.5% (2018: 2.5%). The key assumptions are consistent with past experience and with external sources of information. This is discounted at the pre-tax weighted average cost of capital of 10.54% (2018: 8.8%) which is calculated using the the Capital Asset Pricing Model and referencing inputs from a portfolio of similar hotel businesses. The Group considers the value of the brand name, which was first introduced into the UK in 1985, will be maintained indefinitely and is therefore not amortised. A sensitivity was performed and confirmed that the royalty rate could be reduced to 1.2% or the discount factor rate would need to increase to 26.7% before an impairment is triggered.

Intangible assets and tangible assets - hotel assets

Significant judgement is involved in the process of identifying and evaluating hotel carrying values. These assets with a finite life are reviewed for impairment when an impairment trigger is identified. Calculating any subsequent impairment, principally in the estimation of the future cash flows of the cash generating units and the discount rate applied to each cash generating unit involves judgement. The Group prepares cash flow forecasts derived from the most recent financial budgets and financial plans approved by the Directors and extrapolates cash flows beyond this time based on an estimated long term growth rate of 2.5% (2018: 2.5%). The key assumptions are consistent with past experience and with external sources of information. Reviews are performed on a site by site basis over the length of the lease. The Directors have considered the Group's financial projections and the assumptions which underpin those projections including future growth of the budget hotel sector, brand demand and occupancy.

In order to allow comparability in this year of transition following the adoption of IFRS16, the Group has prepared this analysis on both the current statutory IFRS basis and also before the impact of IFRS 16.

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

The statutory IFRS calculations, including the impact of IFRS 16, consider cash flows excluding rent payments in line with the income statement reporting for IFRS 16. In the absence of asset specific market data following the introduction of IFRS16, the discount rate has been calculated with reference to the market-weighted average pre-tax cost of capital based on a portfolio of similar hotel businesses using the Capital Asset Pricing Model as a starting point. As permitted by the IAS 36, this is then adjusted to reflect the estimated incremental borrowing cost of leasing for each asset based on market rates at the date of the review, in line with the methodology for assessing the variation in the discount rate by asset used to calculate the discount rate which has been used to derive the lease liabilities included on the balance sheet as a result of IFRS 16. This resulted in a weighted average pre-tax discount rate of 8.3% (2018: n/a), with a range of 6.8% to 9.3% for the Group's portfolio of leases.

Onerous lease provisions

The Group has provided for operating lease rentals where these were above the market rate or where the Group has subsequently vacated the property and rental income is less than the rental expense, or where it is probable a previously sublet unit will revert to the Group. The element of the rental which is above market or above any rental cost paid relating to vacated properties is charged against the provision. Provisions are also made for business rates that the Group is liable to on empty sites and on hotels where it is considered improbable that trading profits will be generated. The key estimation judgement in determining the onerous amount is the period over the remaining lease term that the property will remain either rented or vacant. The Directors have estimated these periods after considering both the quality and the location of each of the units provided for. The cash flows are discounted at 4.0% (2018: 4.0%) which represents a risk-free and pre-tax rate based on 25 year government gilt and further adjusted for property risk. In 2019, under IFRS 16 the onerous lease provisions relating to rent are reclassified to right of use assets, leaving only the provisions relating to rates.

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.

4 ANALYSIS OF RESULTS BY GEOGRAPHICAL REGION

	Year ended 31 December 2019			Year ended 31 December 2018
	Before IFRS 16[2] £m	IFRS 16 impact £m	Statutory £m	Statutory £m
Revenue				
UK	**713.1**	-	**713.1**	**680.1**
International	**14.8**	-	**14.8**	**13.2**
Revenue	**727.9**	-	**727.9**	**693.3**
EBITDA - Underlying				
UK EBITDA (adjusted)[1]	**126.4**	207.9	**334.3**	**120.4**
Rent free adjustment	**(2.3)**	2.3	**-**	**(1.9)**
UK EBITDA after rent free adjustment	**124.1**	210.2	**334.3**	**118.5**
International EBITDA after rent free adjustment	**2.7**	4.3	**7.0**	**1.6**
EBITDA after rent free adjustment - Underlying	**126.8**	214.5	**341.3**	**120.1**
Non-underlying items (Total)	**(3.8)**	3.0	**(0.8)**	**(5.6)**
EBITDA after rent free adjustment	**123.0**	217.5	**340.5**	**114.5**
Operating profit - Underlying				
UK	**62.2**	106.9	**169.1**	**59.9**
International	**2.5**	1.7	**4.2**	**1.4**
Operating profit - Underlying	**64.7**	108.6	**173.3**	**61.3**
Non-underlying items (Total)	**(18.8)**	3.2	**(15.6)**	**(12.3)**
Operating profit	**45.9**	111.8	**157.7**	**49.0**
Profit / (Loss) before tax - Underlying				
UK	**10.7**	(53.8)	**(43.1)**	**7.1**
International	**2.4**	(0.9)	**1.5**	**1.5**
Profit / (Loss) before tax - Underlying	**13.1**	(54.7)	**(41.6)**	**8.6**
Non-underlying items (Total) (note 7)	**(34.1)**	3.2	**(30.9)**	**(13.7)**
Loss before tax	**(21.0)**	(51.5)	**(72.5)**	**(5.1)**

There is only one operating segment, which is the provision of budget hotel accommodation and related sales.

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

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

5 ANALYSIS OF ASSETS AND LIABILITIES BY GEOGRAPHICAL REGION

		2019			2018
		Before IFRS 16[8] £m	IFRS 16 impact £m	Statutory £m	Statutory £m
Assets					
Intangible assets		**347.1**	(187.5)	**159.6**	**365.5**
Right of use assets	- UK	**-**	2,488.4	**2,488.4**	**-**
	- International	**-**	32.9	**32.9**	**-**
		-	2,521.3	**2,521.3**	**-**
Trading assets	- UK[1]	**198.4**	(48.1)	**150.3**	**187.6**
	- International[2]	**2.4**	-	**2.4**	**2.2**
		200.8	(48.1)	**152.7**	**189.8**
Non-trading assets	- UK[5]	**47.0**	8.5	**55.5**	**47.9**
	- International[6]	**3.3**	0.4	**3.7**	**-**
		50.3	8.9	**59.2**	**47.9**
Total operations		**598.2**	2,294.6	**2,892.8**	**603.2**
Cash		**89.2**	-	**89.2**	**81.8**
Total assets		**687.4**	2,294.6	**2,982.0**	**685.0**
Liabilities					
Trading liabilities	- UK[3]	**(157.0)**	31.7	**(125.3)**	**(161.9)**
	- International[4]	**(4.1)**	2.0	**(2.1)**	**(5.6)**
		(161.1)	33.7	**(127.4)**	**(167.5)**
Non-trading liabilities[6]		**(54.1)**	(1.1)	**(55.2)**	**(60.5)**
Total operations		**(215.2)**	32.6	**(182.6)**	**(228.0)**
Bond related debt		**(432.1)**	-	**(432.1)**	**(420.8)**
Investor loans		**(111.3)**	-	**(111.3)**	**(97.0)**
Lease liabilities	- UK	**-**	(2,561.8)	**(2,561.8)**	**-**
	- International	**-**	(35.6)	**(35.6)**	**-**
		-	(2,597.4)	**(2,597.4)**	**-**
Finance lease creditor		**(33.6)**	33.6	**-**	**(32.8)**
Total liabilities		**(792.2)**	(2,531.2)	**(3,323.4)**	**(778.6)**
Net assets / (liabilities)					
Other intangible assets		**347.1**	(187.5)	**159.6**	**365.5**
Right of use assets	- UK	**-**	2,488.4	**2,488.4**	**-**
	- International	**-**	32.9	**32.9**	
		-	2,521.3	**2,521.3**	**-**
Trading net assets / (liabilities)	- UK	**41.4**	(16.4)	**25.0**	**25.7**
	- International	**(1.7)**	2.0	**0.3**	**(3.4)**
		39.7	(14.4)	**25.3**	**22.3**
Non-trading assets	- UK	**47.0**	8.5	**55.5**	**47.9**
	- International	**3.3**	0.4	**3.7**	**-**
		50.3	8.9	**59.2**	**47.9**
Non-trading net liabilities[7]		**(54.1)**	(1.1)	**(55.2)**	**(60.5)**
Cash		**89.2**	-	**89.2**	**81.8**
Bond related debt		**(432.1)**	-	**(432.1)**	**(420.8)**
External net debt (before finance leases)		**(342.9)**	-	**(342.9)**	**(339.0)**
Investor loan		**(111.3)**	-	**(111.3)**	**(97.0)**
Lease liabilities	- UK	**-**	(2,561.8)	**(2,561.8)**	**-**
	- International	**-**	(35.6)	**(35.6)**	**-**
		-	(2,597.4)	**(2,597.4)**	**-**
Finance lease creditor		**(33.6)**	33.6	**-**	**(32.8)**
Net liabilities		**(104.8)**	(236.6)	**(341.4)**	**(93.6)**

1. 'Before IFRS 16' UK trading assets of £198.4m (2018: £187.6m) comprise £144.0m (2018: £139.8m) of fixed assets, £43.5m (2018: £37.7m) of prepayments and accrued income, £6.3m (2018: £7.2m) of trade amounts receivable, £2.8m (2018: £1.8m) of other receivables, £0.6m (2018: £nil) of corporation tax and £1.2m (2018: £1.1m) of stock.
2019 Statutory UK trading assets of £150.3m comprise £132.5m of fixed assets, £6.9m of prepayments and accrued income, £6.3m of trade amounts receivable, £2.8m of other receivables, £0.6m of corporation tax and £1.2m of stock.

2. 'Before IFRS 16' International trading assets of £2.4m (2018: £2.2m) comprise £0.4m (2018: £0.4m) of fixed assets, £1.3m (2018: £1.7m) of other receivables and £0.7m (2018: £nil) of corporation tax debtors.
2019 Statutory International trading assets of £2.4m comprise £0.4m of fixed assets, £1.3m of other receivables and £0.7m of corporation tax debtors.

3. 'Before IFRS 16' UK trading liabilities of £157.0m (2018: £161.9m) comprise £77.7m (2018: £74.1m) of accruals, £17.4m (2018: £16.6m) of provisions, £27.5m (2018: £28.1m) of prepaid room deposits, £8.7m (2018: £6.7m) of other payables, £10.9m (2018: £12.7m) of trade payables, £7.5m (2018: £14.2m) of taxation and other social security, £1.5m (2018: £0.8m) of deferred income and £5.8m (2018: £8.7m) of capital payables.
2019 Statutory UK trading liabilities of £125.3m comprise £55.8m of accruals, £7.6m of provisions, £27.5m of prepaid room deposits, £8.7m of other payables, £10.9m of trade payables, £7.5m of taxation and other social security, £1.5m of deferred income and £5.8m of capital payables.

4. 'Before IFRS 16' International trading liabilities of £4.1m (2018: £5.6m) comprises £1.5m (2018: £2.0m) of provisions and £2.6m (2018: £2.8m) of trade payables and £nil (2018: £0.8m) of other payables.
2019 Statutory International trading liabilities of £2.1m comprises trade payables and accruals.

5. 'Before IFRS 16' UK Non-trading assets of £47m (2018: £47.9m) relate to deferred tax assets of £46.7m (2018: £47.4m) and financial derivative assets of £0.3m (2018: £0.5m).
2019 Statutory UK Non-trading assets of £55.5m relate to deferred tax assets of £55.2m and financial derivative assets of £0.3m.

6. 'Before IFRS 16' International Non-trading assets of £3.3m (2018: £nil) relate to deferred tax assets of £3.3m (2018: £nil).
2019 Statutory International Non-trading assets of £3.7m relate to deferred tax assets.

7. 'Before IFRS 16' Non-trading liabilities of £54.1m (2018: £60.5m) relate to deferred tax liabilities.
2019 Statutory Non-trading liabilities of £55.2m relate to deferred tax liabilities.

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

6 NET OPERATING EXPENSES

	Year ended 31 December 2019			Year ended 31 December 2018
	Before IFRS 16[1] £m	IFRS 16 impact £m	Statutory £m	Statutory £m
Cost of goods sold	43.1	-	**43.1**	**42.6**
Employee costs (note 8)	173.9	-	**173.9**	**165.6**
Fees payable to the Company's auditors[2]				
- audit for the parent company and consolidated financial statements	0.2	-	**0.2**	**0.2**
- audit fee for subsidiaries	0.2	-	**0.2**	**0.2**
Operating expenses	172.6	-	**172.6**	**165.8**
Net operating expenses before rent, depreciation, amortisation and non-underlyings	**390.0**	**-**	**390.0**	**374.4**
Rent payable (third party landlords)[4]	212.8	(212.2)	**0.6**	**201.0**
Rent receivable	(4.0)	-	**(4.0)**	**(4.1)**
Net external rent payable	**208.8**	**(212.2)**	**(3.4)**	**196.9**
Rent free adjustment[3]	2.3	(2.3)	**-**	**1.9**
Net rent	**211.1**	**(214.5)**	**(3.4)**	**198.8**
Net operating expenses before depreciation, amortisation and non-underlyings	**601.1**	**(214.5)**	**386.6**	**573.2**
Depreciation	44.6	117.7	**162.3**	**42.2**
Amortisation	17.5	(11.8)	**5.7**	**16.6**
Net depreciation and amortisation	**62.1**	**105.9**	**168.0**	**58.8**
Total net operating expenses (before non-underlyings)	**663.2**	**(108.6)**	**554.6**	**632.0**
Non-underlying items (note 7)	**18.8**	**(3.2)**	**15.6**	**12.3**
Total net operating expenses	**682.0**	**(111.8)**	**570.2**	**644.3**

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

2. In the year ended 31 December 2019, remuneration for non audit fees was £0.2m (2018: £0.3m) mainly related to accounting and tax advice in 2019 and assistance with the refinancing process in 2019.

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

4. Statutory rent payable remaining after the impact of IFRS 16 of £0.6m relates to variable lease payments not included within right of use assets (note 19).

7 NON-UNDERLYING ITEMS (BEFORE TAXATION)

	Year ended 31 December 2019			Year ended 31 December 2018
	Before IFRS 16[1] £m	IFRS 16 impact £m	Statutory £m	Statutory £m
Impairment of intangible assets, property plant & equipment and right of use assets	15.0	(0.2)	**14.8**	**6.7**
Net onerous lease provision reassessment	3.0	(3.0)	**-**	**1.1**
Net lease surrender income	-	-	**-**	**(0.7)**
Break costs in relation to repayment of bond fees	9.9	-	**9.9**	**-**
Write off of unamortised loan issue costs on repayment of bonds	5.4	-	**5.4**	**0.5**
Legal and advisors' fees and management incentives relating to the restructuring of the Group's debt and other exceptional corporate activities	0.8	-	**0.8**	**6.1**
Total non-underlying items	**34.1**	**(3.2)**	**30.9**	**13.7**

Non-underlying charges (before taxation and the impact of IFRS 16) of £34.1m for the year ended 31 December 2019 includes £15.0m for the impairment of intangible assets and property plant & equipment, together with a net onerous lease provision reassessment of £3.0m, and £0.8m related to management incentives with respect to the restructuring of the Group's debt and other exceptional corporate activities, together with break costs of £9.9m and charges of £5.4m relating to the write off of unamortised loan issue costs following the repayment of the fixed rate and floating rate bonds.

The application of IFRS 16 results in non-underlying items reducing by £3.2m, due mainly to the reversal of the net onerous lease provision reassessment of £3.0m as rent is no longer charged under IFRS 16, together with a £0.2m reduction to the impairment charge given the different basis of impairment testing, bringing the total statutory impairment charge to £14.8m for the year.

Statutory non-underlying charges (before taxation) of £30.9m consist of the £14.8m impairment charge together with the £16.1m of items in connection with the restructuring of the Group's debt which are unaffected by the adoption of IFRS 16.

Non-underlying charges (before taxation) of £13.7m for the year ended 31 December 2018 included £6.7m for the impairment of fixed assets, £6.6m for charges in respect of the costs of early redemption (which includes a charge of £0.5m relating to the release of prepaid fees following the partial repayment of the fixed rate bond), legal and advisors' fees and management incentives relating to the restructuring of the Group's debt, and other exceptional corporate activities. Also included is £3.4m of additional provisions recognised, less a provision reassessment release of £2.3m, a £0.8m loss relating to the surrender of the lease at the closed Gatwick Airport hotel less an inflow of £1.5m relating to the surrender of the lease at Cambridge Lolworth.

8 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The Directors of the Company are considered to be the key management of the Group.

Directors' emoluments	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Directors' emoluments	3.6	6.1
Fees	-	-
Pension costs	-	-
Compensation for loss of office	-	-
Total	**3.6**	**6.1**
Remuneration of the highest paid Director	2.0	2.8
	Number	Number
Number of Directors accruing benefits under the defined contribution scheme	-	-

Employee costs during the year (including Directors)	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Wages and salaries	160.5	154.0
Social security costs	9.4	9.0
Other pension costs	4.0	2.6
Total employee costs	**173.9**	**165.6**

In 2019, £0.7m of directors' emoluments (which exclude employer's national insurance) (2018: £3.6m) was in respect of incentives paid in relation to the refinancing and other exceptional corporate activities, which have been charged to non-underlying items (together with employer's national insurance).

8 INFORMATION REGARDING DIRECTORS AND EMPLOYEES (CONTINUED)

		Year ended 31 December 2019 Number	Year ended 31 December 2018 Number
Average FTE number of persons employed [1]	- UK	**7,053**	7,131
	- International	**75**	79
		7,128	**7,210**

		Year ended 31 December 2019 Number	Year ended 31 December 2018 Number
Total number of persons employed [2]	- UK	**11,637**	11,635
	- International	**81**	79
		11,718	**11,714**

The total number of employees at the year ended 31 December 2019 includes all employees whether full time or part time. The average FTE number of employees has been calculated as the average FTE number of people who were included on the Group's payroll during the year.

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

9 OPERATING LEASE COMMITMENTS

Prior to 1 January 2019 and the adoption of IFRS 16, the Group applied IAS 17 and IFRIC 4 in respect of its leasing arrangements. Effective 1 January 2019, IFRS 16 was adopted using the modified retrospective approach with no restatement of prior year comparatives. As such the Group leasing arrangements are accounted for in line with the new accounting policy. For the current year full details are disclosed within Note 16 (Right of use assets) and Note 19 (Lease liabilities).

Total commitments under operating leases amounted to:

	Before IFRS 16[(1)] Year ended 31 December 2019			Year ended 31 December 2018		
	UK £m	International £m	Total £m	UK £m	International £m	Total £m
Due within one year	**215.2**	**4.4**	**219.6**	206.3	4.6	210.9
Due between two and five years	**864.4**	**17.8**	**882.2**	861.4	18.2	879.6
Due beyond five years	**3,038.3**	**39.1**	**3,077.4**	3,258.4	45.0	3,303.4
Total	**4,117.9**	**61.3**	**4,179.2**	**4,326.1**	**67.8**	**4,393.9**
	UK Years	International Years	Total Years	UK Years	International Years	Total Years
Average lease term remaining	**16.4**	**11.9**	**16.4**	**17.4**	**12.9**	**17.4**

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

The leases are standard operating leases with normal commercial terms, typically 25 years (though a number of city centre and London properties have 35 year terms), subject to standard upward only rent reviews, with the majority based on RPI indices (though some with caps and collars, some at open market value and others based on CPI), with Group only renewal rights at the end of the lease. The figures above exclude landlord options to extend leases (which are included in the lease liability under IFRS 16 in note 19).

10 FINANCE INCOME

	Year ended 31 December 2019			Year ended 31 December 2018		
	Received £m	Accrued £m	Total £m	Received £m	Accrued £m	Total £m
Interest on bank deposits	0.6	0.1	**0.7**	0.8	0.1	0.9
Finance income	**0.6**	**0.1**	**0.7**	**0.8**	**0.1**	**0.9**

11 FINANCE COSTS

	Year ended 31 December 2019			Year ended 31 December 2018		
	Paid £m	Accrued £m	Total £m	Paid £m	Accrued £m	Total £m
Finance fees	0.2	1.9	**2.1**	0.6	1.2	1.8
Interest on bank loans	1.3	(0.3)	**1.0**	1.5	(0.3)	1.2
Interest on fixed and floating rate bonds	27.4	1.7	**29.1**	30.4	0.1	30.5
Interest on obligations under finance leases(1)	4.5	0.8	**5.3**	4.5	0.7	5.2
Unwinding of discount on provisions(1)	-	0.5	**0.5**	-	0.6	0.6
Finance costs before interest on investor loan and IFRS 16 - underlying	**33.4**	**4.6**	**38.0**	**37.0**	**2.3**	**39.3**
Interest on investor loan	-	14.3	**14.3**	34.6	(20.3)	14.3
Finance costs (before IFRS 16) - underlying	**33.4**	**18.9**	**52.3**	**71.6**	**(18.0)**	**53.6**
Non-underlying items						
Fees in relation to restructuring of debt	18.5	(3.2)	**15.3**	0.8	0.6	**1.4**
Finance costs (before IFRS 16)	**51.9**	**15.7**	**67.6**	**72.4**	**(17.4)**	**55.0**
IFRS 16 adjustment(1)	164.6	**(1.3)**	**163.3**	**-**	**-**	**-**
Finance costs	**216.5**	**14.4**	**230.9**	**72.4**	**(17.4)**	**55.0**

(1) The total IFRS 16 notional interest charge on lease liabilities is £169.1m, including £5.3m interest on the finance leases reclassified. In addition, the IFRS 16 adjustment includes a £0.5m credit in respect of unwinding of discount on provisions.

12 INCOME TAX

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Current tax		
Adjustment in respect of prior years	**1.6**	-
UK Corporation tax	**-**	(1.1)
Foreign tax	**(0.2)**	(0.8)
Total current tax credit / (charge)	**1.4**	(1.9)
Deferred tax		
Current year credit / (charge)	**2.7**	(3.3)
Adjustment in respect of previous periods	**-**	5.6
Effect of change in tax rate	**0.7**	0.5
Total deferred tax credit / (charge) (note 21)	**3.4**	2.8
Income tax credit / (charge)	**4.8**	**0.9**

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

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

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

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

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Loss before tax	**(72.5)**	**(5.1)**
Tax at the UK corporation tax rate of 19.00% (2018: 19.00%)	**(13.8)**	**(1.0)**
Tax effect of:		
Items not deductible for tax purposes	**2.5**	5.5
Non-qualifying depreciation, amortisation & impairment	**0.1**	0.5
Effect of change in tax rates	**-**	(0.5)
Effect of overseas tax rates	**(0.7)**	0.2
Adjustments from prior years	**(1.6)**	(5.6)
Amounts not recognised	**8.7**	-
Income tax (credit) / charge for the year	**(4.8)**	**(0.9)**

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

	Intangible assets £m	Tax losses and hold-over relief £m	Accelerated tax depreciation £m	Total £m
(Credit) / charge due to movement in the year (note 21)	(5.3)	3.0	(1.1)	**(3.4)**
(Credit) / charge to income statement	**(5.3)**	**3.0**	**(1.1)**	**(3.4)**

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

13 SUBSIDIARIES

The subsidiaries of the Group are listed below.

Name of subsidiary undertaking	Registered Office	Business Description	Country of Incorporation	% of equity held
Travelodge Hotels Limited	Sleepy Hollow, Aylesbury Road, Thame, Oxon, OX9 3AT	Trading Company	Great Britain	100
Travelodge Hoteles Espana SL	Calle Santa Leonor, 34, 28037, Madrid, Spain	Trading Company	Spain	100
Full Moon Holdco 4 Limited*	Sleepy Hollow, Aylesbury Road, Thame, Oxon, OX9 3AT	Holding Company	Great Britain	100
Full Moon Holdco 5 Limited	Sleepy Hollow, Aylesbury Road, Thame, Oxon, OX9 3AT	Holding Company	Great Britain	100
Full Moon Holdco 6 Limited	Sleepy Hollow, Aylesbury Road, Thame, Oxon, OX9 3AT	Holding Company	Great Britain	100
Full Moon Holdco 7 Limited	Sleepy Hollow, Aylesbury Road, Thame, Oxon, OX9 3AT	Holding Company	Great Britain	100
TVL Finance PLC	47 Esplanade, St Helier, Jersey, JE1 0BD	Financing Company	Great Britain	100
TLLC Holdings2 Limited	Sleepy Hollow, Aylesbury Road, Thame, Oxon, OX9 3AT	Holding Company	Great Britain	100
Travelodge Holdings (Malta) Limited	The Landmark, Level 1, Suite 2, Triq L-Iljun, Qormi QRM3800, Malta	Holding Company	Malta	100
FullMoonPropco1 Limited	Sleepy Hollow, Aylesbury Road, Thame, Oxon, OX9 3AT	Trading Company	Great Britain	100
Travelodge Limited	Sleepy Hollow, Aylesbury Road, Thame, Oxon, OX9 3AT	Dormant Company	Great Britain	100
TLLC 2018 Limited	Sleepy Hollow, Aylesbury Road, Thame, Oxon, OX9 3AT	Dormant Company	Great Britain	100

** Directly owned*
All shares held are ordinary shares

In January 2019 the following subsidiary companies were reinstated, having previously been struck off at Companies House: TLLC Holdings3 Limited, TLLC Holdings4 Limited, TLLC Holdings5 Limited and TLLC 2018 Limited (previously TLLC Limited).

In March 2019, all shares in TLLC 2018 Limited were transferred from TLLC Holdings5 Limited to TLLC Holdings2 Limited. TLLC Holdings3 Limited, TLLC Holdings4 Limited and TLLC Holdings5 Limited were struck off in September 2019.

14 INTANGIBLE ASSETS

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

	Brand(1)	Assets under construction(2)	Lease premiums(3)	IT Software(4)	Statutory	Comparable to 2018 Reported Results: Memo 'Before IFRS 16' Total (5)
	£m	£m	£m	£m	£m	*£m*
Cost						
At 1 January 2019	145.0	3.9	285.5	16.1	450.5	*450.5*
Impact of adoption of IFRS 16(3)	-	-	(285.5)	-	(285.5)	-
Restated at 1 January 2019	145.0	3.9	-	16.1	165.0	*450.5*
Capital expenditure	-	9.0	-	-	9.0	*9.0*
Movement on capital creditors	-	-	-	(0.4)	(0.4)	*(0.6)*
Transfers between categories	-	(7.3)	-	5.3	(2.0)	-
Write off fully depreciated assets	-	-	-	(7.5)	(7.5)	*(7.5)*
At 31 December 2019	**145.0**	**5.6**	**-**	**13.5**	**164.1**	***451.4***
Accumulated amortisation						
At 1 January 2019	-	-	(78.7)	(6.3)	(85.0)	*(85.0)*
Impact of adoption of IFRS 16(3)	-	-	78.7	-	78.7	-
Restated at 1 January 2019	-	-	-	(6.3)	(6.3)	*(85.0)*
Charge for the year	-	-	-	(5.7)	(5.7)	*(17.5)*
Write off fully depreciated assets	-	-	-	7.5	7.5	*7.5*
Impairment	-	-	-	-	-	*(9.3)*
At 31 December 2019	**-**	**-**	**-**	**(4.5)**	**(4.5)**	***(104.3)***
Carrying amount at 31 December 2019	**145.0**	**5.6**	**-**	**9.0**	**159.6**	***347.1***
Carrying amount at 31 December 2018	145.0	3.9	206.8	9.8	365.5	*365.5*

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

	Brand(1)	Assets under construction(2)	Lease premiums(3)	IT Software(4)	2018 Reported Results: Statutory
	£m	£m	£m	£m	£m
Cost					
At 1 January 2018	145.0	4.4	284.2	13.9	447.5
Capital expenditure	-	6.3	-	-	6.3
Movement on capital creditors	-	-	0.4	(0.2)	0.2
Transfers	-	(6.8)	1.4	5.4	-
Write off fully depreciated assets	-	-	(0.2)	(3.0)	(3.2)
Disposals	-		(0.3)		(0.3)
At 31 December 2018	**145.0**	**3.9**	**285.5**	**16.1**	**450.5**
Accumulated amortisation					
At 1 January 2018	-	-	(62.7)	(4.8)	(67.5)
Charge for the year	-	-	(12.1)	(4.5)	(16.6)
Write off fully depreciated assets	-	-	0.2	3.0	3.2
Disposals			0.3		0.3
Impairment	-	-	(4.4)	-	(4.4)
At 31 December 2018	**-**	**-**	**(78.7)**	**(6.3)**	**(85.0)**
Carrying amount at 31 December 2018	**145.0**	**3.9**	**206.8**	**9.8**	**365.5**
Carrying amount at 31 December 2017	145.0	4.4	221.5	9.1	380.0

1. The brand intangible asset arose on the acquisition of Travelodge. This is not subject to annual amortisation but is assessed for impairment on an annual basis.

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

3. Lease premiums are amortised on a straight line basis over the lease period. The impact of adoption of IFRS 16 consists of the reclassification of leasehold premium intangible assets of net book value £206.8m to Right of Use assets at the transition date. Before the impact of IFRS 16, an impairment of £9.3m was made in 2019 (2018: £4.4m). Under IFRS 16 the £9.3m impairment on leasehold premiums is reallocated to Right of Use Assets, together with additions of £1.8m and amortisation of £11.8m in 2019.

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

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

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

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

The Group prepares cash flow forecasts derived from the most recent financial budgets and financial plans approved by the Directors and extrapolates cash flows beyond this time based on an estimated long term growth rate of 2.5% (2018: 2.5%). The key assumptions are consistent with past experience and with external sources of information. Reviews are performed on a site by site basis over the length of the lease. The Directors have considered the Group's financial projections and the assumptions which underpin those projections including future growth of the budget hotel sector, brand demand and occupancy.

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

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

15 PROPERTY, PLANT AND EQUIPMENT

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

	Assets under construction[1] £m	Freehold land, freehold and long leasehold buildings[2] £m	Assets held under finance leases[3] £m	Fixtures and fittings[4] £m	Statutory £m	Comparable to 2018 Reported Results: *Memo 'Before IFRS 16' Total[6] £m*
Cost						
At 1 January 2019	1.4	1.8	18.3	198.5	220.0	*220.0*
Impact of adoption of IFRS 16[3]	-	-	(18.3)	-	(18.3)	-
Restated At 1 January 2019	1.4	1.8	-	198.5	201.7	*220.0*
Capital expenditure	56.7	-	-	0.2	56.9	*56.9*
Movement on capital creditors	-	-	-	(2.3)	(2.3)	*(2.3)*
Transfers	(55.2)	-	-	55.2	-	-
Write-down of fully depreciated assets	-	-	-	(44.9)	(44.9)	*(44.9)*
Disposals	-	-	-	(0.2)	(0.2)	*(0.2)*
At 31 December 2019	**2.9**	**1.8**	**-**	**206.5**	**211.2**	***229.5***
Accumulated depreciation						
At 1 January 2019	-	(0.2)	(2.8)	(76.7)	(79.7)	*(79.7)*
Impact of adoption of IFRS 16[3]	-	-	2.8	(1.4)	1.4	-
Restated At 1 January 2019	-	(0.2)	-	(78.1)	(78.3)	*(79.7)*
Charge for the year	-	-	-	(44.2)	(44.2)	*(44.6)*
Write-back of depreciation on fully depreciated assets	-	-	-	44.9	44.9	*44.9*
Disposals	-	-	-	-	-	-
Impairment[5]	-	-	-	(0.7)	(0.7)	*(5.7)*
At 31 December 2019	**-**	**(0.2)**	**-**	**(78.1)**	**(78.3)**	***(85.1)***
Carrying amount at 31 December 2019	**2.9**	**1.6**	**-**	**128.4**	**132.9**	***144.4***
Carrying amount at 31 December 2018	1.4	1.6	15.5	121.8	140.3	*140.3*

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

	Assets under construction[1] £m	Freehold land, freehold and long leasehold buildings[2] £m	Assets held under finance leases[3] £m	Fixtures and fittings[4] £m	2018 Reported Results: Statutory £m
Cost					
At 1 January 2018	3.7	1.8	18.3	178.4	202.2
Capital expenditure	52.7	-	-	-	52.7
Movement on capital creditors	-	-	-	(0.3)	(0.3)
Abortive costs	-	-	-	-	-
Transfers	(55.0)	-	-	55.0	-
Write-down of fully depreciated assets	-	-	-	(34.5)	(34.5)
Disposals	-	-	-	(0.1)	(0.1)
At 31 December 2018	**1.4**	**1.8**	**18.3**	**198.5**	**220.0**
Accumulated depreciation					
At 1 January 2018	-	(0.2)	(2.3)	(67.3)	(69.8)
Charge for the year	-	-	(0.5)	(41.7)	(42.2)
Write-back of depreciation on fully depreciated assets	-	-	-	34.5	34.5
Disposals	-	-	-	0.1	0.1
Impairment	-	-	-	(2.3)	(2.3)
At 31 December 2018	**-**	**(0.2)**	**(2.8)**	**(76.7)**	**(79.7)**
Carrying amount at 31 December 2018	**1.4**	**1.6**	**15.5**	**121.8**	**140.3**
Carrying amount at 31 December 2017	3.7	1.6	16.0	111.1	132.4

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

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

3. Before the adoption of IFRS 16 on 1 January 2019, assets held under finance leases were depreciated over their useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. The impact of the adoption of IFRS 16 consists of the transfer of £15.5m from Property, Plant & Equipment to Right of Use assets, representing the net book value of assets previously classified as finance lease assets. There was also an additional £1.4m impairment to fixtures and fittings on transition.

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

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

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

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

The Group prepares cash flow forecasts derived from the most recent financial budgets and financial plans approved by the Directors and extrapolates cash flows beyond this time based on an estimated long term growth rate of 2.5% (2018: 2.5%). The key assumptions are consistent with past experience and with external sources of information. Reviews are performed on a site by site basis over the length of the lease. The Directors have considered the Group's financial projections and the assumptions which underpin those projections including future growth of the budget hotel sector, brand demand and occupancy.

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

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

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

16 RIGHT OF USE ASSETS

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

Adoption of IFRS 16	Property £m	Total £m
New Right of Use Assets on adoption	2,360.6	2,360.6
Transfer from Property, Plant and Equipment[(1)]	15.5	15.5
Transfer from Intangible Assets[(2)]	206.8	206.8
Transfer from Provisions[(3)]	(10.5)	(10.5)
Impairment on adoption of IFRS 16[(4)]	(35.7)	(35.7)
	2,536.7	**2,536.7**

(1) Transfers from Property, Plant and Equipment of £15.5m represents the net book value of assets previously classified as finance lease assets.

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

(3) £10.5m of transfers from Provisions being onerous lease provisions held in respect of leases at the date of transition.

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

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

The Group prepares cash flow forecasts derived from the most recent financial budgets and financial plans approved by the Directors and extrapolates cash flows beyond this time based on an estimated long term growth rate of 2.5% (2018: 2.5%). The key assumptions are consistent with past experience and with external sources of information. Reviews are performed on a site by site basis over the length of the lease. The Directors have considered the Group's financial projections and the assumptions which underpin those projections including future growth of the budget hotel sector, brand demand and occupancy.

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

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

	Property £m	Total £m
Cost		
Impact of Adoption of IFRS 16 on 1 January 2019[(1)]	2,976.5	2,976.5
New leases	64.1	64.1
Movement on capital creditors[(2)]	(0.2)	(0.2)
Transfers[(3)]	2.0	2.0
Rent reviews and adjustments	52.6	52.6
Foreign exchange translation adjustments	(1.9)	(1.9)
At 31 December 2019	**3,093.1**	**3,093.1**
Accumulated depreciation		
Adoption of IFRS 16 on 1 January 2019	(404.1)	(404.1)
Impairment on adoption	(35.7)	(35.7)
Impact of Adoption of IFRS 16 on 1 January 2019[(1)]	(439.8)	(439.8)
Depreciation	(118.1)	(118.1)
Foreign exchange translation adjustments	0.2	0.2
Impairment[(4)]	(14.1)	(14.1)
At 31 December 2019	**(571.8)**	**(571.8)**
Carrying amount at 31 December 2019	**2,521.3**	**2,521.3**
Carrying amount at 31 December 2018	-	-

(1) The impact of the adoption of IFRS 16 included the transfers from Property, Plant and Equipment of £15.5m represents the net book value of assets previously classified as finance lease assets, transfers from Intangible Assets of £206.8m represent the net book value of assets previously classified as lease premiums, £10.5m of transfers from Provisions being onerous lease provisions held in respect of leases at the date of transition and an additional £35.7m impairment to Right of Use assets at transition date.

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

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

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

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

17 TRADE AND OTHER RECEIVABLES

	Year ended 31 December 2019			Year ended 31 December 2018[4]
	Before IFRS 16 £m	IFRS 16 impact £m	Statutory £m	Statutory £m
Amounts due within one year:				
Trade amounts receivable				
- Gross amounts receivable	6.5	-	**6.5**	7.6
- Bad debt provision	(0.2)	-	**(0.2)**	(0.4)
- Net amounts receivable	**6.3**	**-**	**6.3**	7.2
Other amounts receivable[3]	4.1	-	**4.1**	3.5
Corporation tax debtor	1.3	-	**1.3**	-
Accrued income[2]	2.4	-	**2.4**	1.8
Prepayments[1]	41.1	(36.6)	**4.5**	35.9
	55.2	**(36.6)**	**18.6**	**48.4**

1. Prepayments mainly include prepayments of rent and rates.

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

3. Other amounts receivable include £1.6m (2018: £1.2m) of loans to related parties (see note 27)

4. Following the reclassification of certain balances between debtors and creditors in the year, comparatives have been regrouped to reflect those changes so as to ensure comparability.

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

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

Trade Receivable Ageing	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Current	**5.2**	6.1
Past due		
30 days	**0.1**	0.4
60 days	**0.1**	0.3
90+ days	**1.1**	0.8
Total	**6.5**	**7.6**

18 TRADE AND OTHER PAYABLES

	Year ended 31 December 2019			Year ended 31 December 2018[3]
	Before IFRS 16 £m	IFRS 16 impact £m	Statutory £m	Statutory £m
Trade payables	(13.5)	-	**(13.5)**	(15.5)
Other payables	(8.7)	-	**(8.7)**	(7.5)
Social security and other taxation	(7.5)	-	**(7.5)**	(14.2)
Accruals[1]	(59.9)	4.7	**(55.2)**	(58.8)
Deferred income	(1.5)	-	**(1.5)**	(0.8)
Contract liabilities - Prepaid room purchases[2]	(27.5)	-	**(27.5)**	(28.1)
Capital payables	(5.8)	-	**(5.8)**	(8.7)
Amounts falling due within one year	**(124.4)**	**4.7**	**(119.7)**	**(133.6)**
Amounts falling due after one year				
Accruals[1]	(17.8)	17.8	**-**	(15.3)
Total	**(142.2)**	**22.5**	**(119.7)**	**(148.9)**

1. Certain hotel leases include a rent-free period at the beginning of the lease term. 'Before IFRS 16', the benefit of this rent free period is held on the balance sheet and is recognised in the income statement as a deduction to the actual rent expense in each period, on a straight line basis, over the full life of the lease.

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

3. Following the reclassification of certain balances between debtors and creditors in the year, comparatives have been regrouped to reflect those changes so as to ensure comparability.

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

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

19 LEASE LIABILITIES

The Group operates all 588 of its hotels under long term leases. The IFRS 16, 'Leases' accounting standard was adopted on 1 January 2019 and requires recognition of both a Right of Use asset and a Lease Liability arising from those long-term leasing arrangements. In addition to the recognition of Lease Liabilities at the date of adoption, liabilities relating to finance lease creditors have been reclassified to lease liabilities.

	Property £m	Total £m
Adoption of IFRS 16		
New Lease Liabilities on adoption	(2,509.1)	(2,509.1)
Transfer from Finance Lease Creditors	(32.8)	(32.8)
	(2,541.9)	**(2,541.9)**

An analysis of Lease Liabilities for the year ended 31 December 2019 is given below:	Property £m	Total £m
Balance at 1 January 2019	-	-
Adoption of IFRS 16	(2,541.9)	(2,541.9)
New leases	(64.1)	(64.1)
Rent reviews and adjustments	(52.6)	(52.6)
Foreign exchange translation adjustments	1.9	1.9
Finance costs	(169.1)	(169.1)
Payments - Finance Leases	4.5	4.5
Payments - Operating Leases	223.9	223.9
At 31 December 2019	**(2,597.4)**	**(2,597.4)**
Amounts falling due within one year	**(47.6)**	**(47.6)**
Amounts falling due after one year	**(2,549.8)**	**(2,549.8)**
	(2,597.4)	**(2,597.4)**

Contractual undiscounted lease payments - maturity analysis

	Property £m	Total £m
Within one year	216.5	216.5
Greater than one year but less than five years	902.4	902.4
Greater than five years but less than ten years	1,125.9	1,125.9
Greater than ten years but less than fifteen years	1,093.2	1,093.2
Greater than fifteen years	1,875.7	1,875.7
Total undiscounted lease payments at 31 December 2019	5,213.7	5,213.7

Lease liabilities are based on discounted future committed lease payments and therefore do not include the impact of variable lease components, short-term and low value leases. Further information regarding these payments is provided below. The weighted average discount rate applied to future lease payments used to establish lease liabilities is 7.10% with a weighted average remaining lease length of 23.1 years. This compares to the pre-tax weighted average discount rate used to create the lease liabilities of 7.1% with a range of 5.5% to 9.1%

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

Lease payments charged / (credited) to Income Statement	Property £m	Total £m
Variable lease payments charge not included within right of use assets	0.6	0.6
Income from subleasing right of use assets	(4.0)	(4.0)
	(3.4)	(3.4)

20 FINANCIAL ASSETS AND LIABILITIES

	Maturity Date	Year ended 31 December 2019 Before IFRS 16 £m	IFRS 16 impact £m	Statutory £m	Year ended 31 December 2018 Statutory £m
Cash at bank and in hand		**89.2**	-	**89.2**	81.8
External debt redeemable:					
Fixed Rate Bond	May 2023	**-**	-	**-**	(232.0)
Floating Rate Bond	May 2023	**(440.0)**	-	**(440.0)**	(195.0)
Issue Costs		**7.9**	-	**7.9**	6.2
External debt		**(432.1)**	-	**(432.1)**	(420.8)
Net external debt		**(342.9)**	-	**(342.9)**	(339.0)
Investor Loan Note	January 2026	**(111.3)**	**-**	**(111.3)**	(97.0)
Net debt before finance leases		**(454.2)**	**-**	**(454.2)**	(436.0)
Lease liabilities		**-**	(2,597.4)	**(2,597.4)**	-
Finance leases		**(33.6)**	33.6	**-**	(32.8)
Net funding including finance leases		**(487.8)**	(2,563.8)	**(3,051.6)**	**(468.8)**

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

On 5 July 2019, the Group completed a refinancing of its existing debt facilities.

Senior secured notes

Senior secured fixed rate sterling denominated notes of £290m were issued on 10 May 2016 with a termination date of 11 May 2023. Of these, £29m were repaid on 28 April 2017, a further £29m were repaid on 3 January 2018 and the remaining £232m were repaid on 5 July 2019. Interest was fixed at 8.5% and payable on a semi-annual basis.

Senior secured floating rate sterling denominated notes of £165m and £30m were issued on 28 April 2017 and 3 January 2018 respectively, with a termination date of 15 May 2023. Interest was floating at three month LIBOR plus a margin of 4.875% and payable on a quarterly basis. These notes were repaid on 5 July 2019.

On 5 July 2019 new senior secured floating rate sterling denominated notes of £440m were issued with a termination date of 15 July 2025. Interest is floating at three month LIBOR plus a margin of 5.375%. Interest is payable quarterly each January, April, July and October, commencing in October 2019. The notes may be redeemed at any time on or after 15 July 2020, at par.

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

The weighted average interest rate paid in the year ended 31 December 2019 was 5.8% (2018: 7.1%), and the weighted average interest rate charged in the year ended 31 December 2019 was 6.2% (2018: 7.1%).

Revolving credit facility

At the balance sheet date, a sterling denominated revolving credit facility of £40m was available to the Group until July 2024. At the date of these financial statements £40m drawings on this facility had been made.

The revolving credit facility was reduced from £50m to £40m on 5 July 2019 during the refinancing and was extended from April 2022 until July 2024.

20 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Letter of credit facility
The letter of credit facility has a maximum usage of £30m and is available until July 2024 (as amended on 5 July 2019). At 31 December 2019, letters of credit were in issue to the Group to the value of £14.8m, but not called upon.

Issue costs
Costs incurred in issuing the senior secured sterling denominated notes, revolving credit and letter of credit facility have been deducted from the fair value of the notes and facilities, which are carried at amortised cost.

Investor loan note
The interest rate charged on the investor loan note is 15%. As at 31 December 2019, accrued interest for period from 1 January 2019 to 31 December 2019 totalled £14.3m (2018: £14.3m). The investor loan note has a termination date of January 2026.

The notes were variably secured on leases owned by certain subsidiary undertakings and charges over shares in subsidiary undertakings.

	Finance Leases	Lease Liabilities	Fixed rate bond	Floating rate bond	Total External Debt	Investor loan note	Total
	£m	£m	£m	£m	£m	£m	£m
Balance at 1st January 2019	(32.8)	-	(232.0)	(195.0)	**(459.8)**	(97.0)	**(556.8)**
Adoption of IFRS 16	32.8	(2,541.9)	-	-	(2,509.1)	-	(2,509.1)
Balance at 1st January 2019 - restated	**-**	**(2,541.9)**	**(232.0)**	**(195.0)**	**(2,968.9)**	**(97.0)**	**(3,065.9)**
Bonds repaid in year	-	-	232.0	195.0	**427.0**	-	**427.0**
Bonds issued in the year	-	-	-	(440.0)	**(440.0)**	-	**(440.0)**
New leases	-	(64.1)	-	-	**(64.1)**	-	**(64.1)**
Rent reviews	-	(52.6)	-	-	**(52.6)**	-	**(52.6)**
Foreign exchange translation adjustments	-	1.9	-	-	**1.9**	-	**1.9**
Finance lease repayments	-	4.5	-	-	**4.5**	-	**4.5**
Operating lease repayments	-	223.9	-	-	**223.9**	-	**223.9**
Interest on lease liabilities	-	(169.1)	-	-	**(169.1)**	-	**(169.1)**
Accrued investor loan interest	-	-	-	-	**-**	(14.3)	**(14.3)**
Net movement in year	-	(55.5)	232.0	(245.0)	**(68.5)**	(14.3)	**(82.8)**
Balance at 31st December 2019	**-**	**(2,597.4)**	**-**	**(440.0)**	**(3,037.4)**	**(111.3)**	**(3,148.7)**

A comparison of the carrying value and fair value of the Group's financial assets and liabilities is shown below.

	31st December 2019				31st December 2018	
	Carrying amount			Fair value	Carrying amount	Fair value
	Before IFRS 16	IFRS 16 impact	Statutory	Statutory	Statutory	Statutory
Financial instrument categories	£m	£m	£m	£m	£m	£m
Cash and Cash Equivalents	**89.2**	**-**	**89.2**	**89.2**	81.8	81.8
Loans and receivables[1]	**12.8**	**-**	**12.8**	**12.8**	12.5	12.5
Financial derivative asset	**0.3**	**-**	**0.3**	**0.3**	0.5	0.5
Bond related debt	**(440.0)**	**-**	**(440.0)**	**(442.6)**	(427.0)	(432.3)
Investor Loan Note	**(111.3)**	**-**	**(111.3)**	**(111.3)**	(97.0)	(97.0)
Financial liabilities[2]	**(158.2)**	**(2,530.1)**	**(2,688.3)**	**(2,688.3)**	(157.2)	(157.2)
	(607.2)	**(2,530.1)**	**(3,137.3)**	**(3,139.9)**	(586.4)	(591.7)

1. Loans and receivables of £12.8m (2018: £12.5m) are made up of trade receivables £6.3m (2018: £7.2m), other receivables of £4.1m (2018: £3.5m) and accrued income of £2.4m (2018: £1.8m).

2. Financial liabilities of £2,688.3m (2018: £157.2m) are made up of lease liabilities of £2,597.4m (2018: finance lease creditor of £32.8m), provisions £7.7m (2018: £18.6), trade payables £13.5m (2018: £15.5m), capital payables £5.8m (2018: £8.7m), accruals £55.2m (2018: £74.1m) and other payables £8.7m (2018: £7.5m).

Loans and receivables and financial liabilities (excluding lease liabilities and finance lease payables) are due within one year

Interest rate cap
On 30 July 2019, Travelodge paid an upfront premium of £467k to purchase an interest rate cap in relation to the senior secured floating sterling denominated notes, on a notional amount of £300m. The interest rate cap commences in respect of payments due on 15 January 2020 and is due to terminate on 15 October 2022.

As per the terms of the cap, if LIBOR exceeds 1.5% after 15 October 2019, Travelodge will receive a cash settlement on the difference between LIBOR and 1.5% to cover a portion of the scheduled quarterly payments on a notional amount of £300m, up to 15 October 2022.

Interest rate hedge (swap)
On 15 August 2019 the interest rate hedge expired. The interest rate hedge was against £100m of the senior secured floating rate notes with an effective date from 15 November 2016 and a termination date of 15 August 2019. The pay rate of the hedge was fixed at 0.376% and the receive rate of the hedge floated to LIBOR. At 31 December 2019, the fair value of the hedge was £nil (31 December 2018: £0.4m).

Swaption
On 30 June 2018, Travelodge entered into a swaption in relation to the new senior secured floating sterling denominated notes of £165m. The swaption commenced on 15 May 2019 and was due to terminate on 15 May 2021. On 15 May 2019 LIBOR was less than 1.5% so the product was not activated and expired. At 31 December 2019, the fair value of the swaption was £nil (31 December 2018: £0.1m).

20 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The table below analyses financial instruments carried at fair value, by valuation method. The different levels are defined as follows:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which uses inputs which have a significant effect on the recorded fair value that are not based on observable market data.

31 December 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets measured at fair value through profit and loss				
Derivatives (interest rate cap)	-	0.3	-	0.3
Total Derivatives	-	0.3	-	**0.3**

31 December 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets measured at fair value through profit and loss				
Derivatives (interest rate swaps)	-	0.4	-	0.4
Swaption	-	0.1	-	0.1
Total Derivatives	-	0.5	-	**0.5**

Risk

Capital risk management: The Group 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 Group 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.

Interest rate risk: The Group finances its operations through borrowings. The Group borrows at floating rates and uses an interest rate cap to limit the interest paid. £300m of floating rate bonds of £440m are covered by the interest rate cap.

Given the Group's debt facilities position at 31 December 2019 a small movement in LIBOR will affect the group's interest profile. The Group's net profit and cash interest payment would increase or decrease by £1.1m if LIBOR rates increased or decreased by 25 basis points.

Liquidity risks: The Group has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Credit risk: The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. No collateral is held against liquid funds.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Currency exposures: At 31 December 2019, the Group had no material currency exposures that would give rise to net currency gains or losses being recognised in the income statement.

21 DEFERRED TAX

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

	Tax losses and hold-over relief £m	Accelerated tax depreciation £m	Deferred tax asset £m	Intangible assets £m	Deferred tax liability £m	Total £m
At 1 January 2019	24.8	22.6	**47.4**	(60.5)	**(60.5)**	**(13.1)**
Impact of Adoption of IFRS 16 on 1 January 2019	(18.5)	31.9	**13.4**	-	**-**	**13.4**
	6.3	54.5	**60.8**	(60.5)	**(60.5)**	**0.3**
(Charge)/credit to income in year	(3.0)	1.1	**(1.9)**	5.3	**5.3**	**3.4**
At 31 December 2019	3.3	55.6	**58.9**	(55.2)	**(55.2)**	**3.7**

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

There is an unprovided deferred tax asset of £32.9m (2018: £nil) relating to tax losses and other timing differences.

22 PROVISIONS

	Year ended 31 December 2019			Year ended 31 December 2018
	Before IFRS 16 £m	IFRS 16 impact £m	Statutory £m	Statutory £m
At 1 January	(18.6)	-	(18.6)	(23.0)
Impact of adoption of IFRS 16	-	10.5	10.5	-
Revised balance at 1 January	(18.6)	10.5	(8.1)	(23.0)
Cash spend	3.1	(2.7)	0.4	9.4
Reassessment in provisions	(3.0)	3.0	-	(1.1)
Unwinding of discount of provisions	(0.5)	0.5	-	(0.6)
Foreign exchange rate movement	0.1	(0.1)	-	-
Transfer from accruals	-	-	-	(3.3)
At 31 December	**(18.9)**	**11.2**	**(7.7)**	**(18.6)**

	Year ended 31 December 2019			Year ended 31 December 2018
	£m	£m	£m	£m
The balance can be analysed as:				
Due in less than one year	**(1.7)**	**1.6**	**(0.1)**	**(1.7)**
Due in greater than one year	**(17.2)**	**9.6**	**(7.6)**	**(16.9)**
	(18.9)	**11.2**	**(7.7)**	**(18.6)**

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

'Before IFRS 16' Provisions of £18.9m can be analysed as: onerous lease provisions of £1.7m relating to future rent and rates liabilities on sub leased historic restaurant units, £10.9m relating to fifteen UK hotels and one Spanish hotel where it is considered improbable that trading profits will be generated within a period of 7 years and £6.3m of other provisions.

Onerous lease provisions relate to the future discounted cash outflow in relation to certain rent and rates liabilities where no economic benefit is expected to accrue to the Group. These provisions have an average remaining lease term of 15 years and have been discounted at a Frozen GAAP pre-tax risk free rate of 4.0% (2018: 4.0%).

Following the adoption of IFRS 16 on 1 January 2019, provisions in respect of onerous leases of £10.5m were reflected as a reduction to the Right of Use assets at the transition date. Any subsequent payments in respect of these leases reduce the IFRS 16 lease creditor.

23 POST BALANCE SHEET EVENTS

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

Travelodge has made use of government support including:

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

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

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

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

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

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

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

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

24 SHARE CAPITAL

	2019 & 2018 shares	2019 & 2018 £
Authorised:		
Ordinary shares of £0.000001 each	**1,000,000**	**1**
	1,000,000	**1**

	2019 & 2018 shares	2019 & 2018 £
Called up, allotted and fully paid:		
Ordinary shares of £0.000001 each	**1,000,000**	**1**
	1,000,000	**1**

25 CAPITAL COMMITMENTS

Contracted future capital expenditure not provided for in these financial statements predominantly relates to expenditure on the refurbishment and maintenance of current hotels. At 31 December 2019 the capital commitment not provided for in the financial statements, subject to satisfactory practical completion, was £6.1m (2018: £5.5m).

26 CONTINGENT LIABILITIES

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

At 31 December 2019 the estimated annual contingent rental liability was £61k (2018: £61k), represented by 5 units (2018: 5 units) with an average annual rental cost per unit of £12k (2018: £12k) and an average lease term remaining of 35 years (2018: 36 years).

27 RELATED PARTY TRANSACTIONS AND ULTIMATE CONTROLLING PARTY

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

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

Anchor Holdings SCA has provided the Company with an investor loan of £95.0m (2018: £95.0m). None of the accrued interest relating to this loan was repaid during 2019 (2018: £34.6m). The loan accrues interest at 15.0% (2018: 15.0%) per annum.

Interest accrued in the year is £14.3m (2018: £14.3m) and the total balance including accrued interest was £111.3m (2018: £97.0m). The loan note is due for repayment in 2026.

Travelodge Hotels Limited has agreed to make loan facilities available to Anchor Holdings S.C.A and Anchor Holdings G.P.S.A up to a maximum of £1.5m (2018: £1.2m) and £0.5m (2018: £0.4m) respectively. At the balance sheet date, Anchor Holdings S.C.A and Anchor Holdings G.P.S.A had utilised £1.2m (2018: £0.9m) and £0.4m (2018: £0.3m) respectively. The loans accrue interest at 8% per annum. Interest accrued in the year was £0.1m (2018: £0.1m), all of which was unpaid.

During 2014, certain property leases the Group had previously entered into with an external third party were sold on an arm's length basis to an entity which is controlled by the Group's ultimate owners. Some of the these property leases were sold back to an external third party in 2016, with the remainder also being sold in 2018. All terms of these property leases and the value the Group is liable to pay were unchanged as a result of these transactions. In the year ended 31 December 2019, the property costs charged until transfer of ownership were £nil (2018: £9.8m) and there were no balances outstanding at 31 December 2019 (2018: £nil).

Of the total fees paid as part of the Group's refinancing (see note 19), an amount of £3.1m was paid to a financial institution which is related to one of the parent undertakings (2018: £0.2m was paid to a syndicate of financial institutions).

28 NOTE TO THE CASH FLOW STATEMENT

	Year ended 31 December 2019			Year ended 31 December 2018
	Before IFRS 16[1] £m	IFRS 16 impact £m	Statutory £m	Statutory £m
Underlying Operating profit	64.7	108.6	173.3	61.3
Non-underlying items[2]	(18.8)	3.2	(15.6)	(12.3)
Operating profit	45.9	111.8	157.7	49.0
Adjustments for non-cash items:				
Depreciation of property, plant and equipment	44.6	117.7	162.3	42.2
Amortisation of other intangible assets	17.5	(11.8)	5.7	16.6
Impairment of fixed assets (notes 14, 15 & 16)	15.0	(0.2)	14.8	6.7
	77.1	105.7	182.8	65.5
Operating cash flows before movements in working capital	**123.0**	**217.5**	**340.5**	**114.5**
Movement in inventory	(0.1)	-	(0.1)	(0.1)
Movement in receivables	(6.9)	1.4	(5.5)	(4.7)
Movement in payables	(2.9)	5.3	2.4	12.4
Movement in provisions	(0.1)	(0.3)	(0.4)	(5.0)
Total working capital movement	(10.0)	6.4	(3.6)	2.6
CASH FLOWS FROM OPERATING ACTIVITIES	**113.0**	**223.9**	**336.9**	**117.1**

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

2. 'Before IFRS 16' non-underlying items of £18.8m (2018: £12.3m) for the year ended 31 December 2019 included £15.0m (2018: £6.7m) for the impairment of intangible assets and property, plant & equipment, together with a net onerous lease provision reassessment of £3.0m (2018: 1.1m), and £0.8m (2018: £5.2m) related to management incentives with respect to the restructuring of the Group's debt and other exceptional corporate activities (2018: net £(0.7)m).

29 ALTERNATIVE PERFORMANCE MEASURES (APMs)

The Group uses the non-statutory alternative performance measures 'EBITDA (Adjusted)' and 'Free Cash Flow' to monitor the financial performance of the Group internally. This measure is not a statutory measure in accordance with IFRS.

We report these measures because we believe it provides both management and other stakeholders with useful additional information about the financial performance of the Group's businesses.

APMs are not defined by IFRS and therefore may not be directly comparable with similarly titled measures reported by other companies. APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measures.

We believe the non-IFRS measures are useful metrics for investors to understand our results of operations, profitability and ability to service debt and because they permit investors to evaluate our recurring profitability from underlying operating activities.

We also use these measures internally to track our business performance, establish operational and strategic targets and make business decisions. We believe EBITDA (adjusted) facilitates operating performance comparisons between periods and among other companies in industries similar to ours because it removes the effect of variation in capital structures, taxation, and non-cash depreciation, amortisation and impairment charges, which may be unrelated to operating performance. We believe EBITDA (adjusted) is a useful measure of our underlying operating performance because it excludes the impact of items which are not related to our core results of operations, including certain one-off or non-recurring items and more closely aligns the recognition of rent free periods in profitability with the corresponding cash impact.

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

	2019 £m	2018 £m
Statutory Loss before Tax	**(72.5)**	**(5.1)**
Net Finance Costs	230.2	54.1
Operating Profit	**157.7**	**49.0**
Non-underlying Items (See note 7)	15.6	12.3
Underlying Operating Profit	**173.3**	**61.3**
Reverse IFRS 16 Rent Adj(1)	(214.5)	-
Depreciation, Amortisation - Underlying	168.0	58.8
EBITDA - before Rent Free Adjustment	126.8	120.1
Rent Free Adjustment(2)	2.3	1.9
Adjusted EBITDA(3)	**129.1**	**122.0**

(1) The rent payable for operating leases of £212.2m and the rent free adjustment of £2.3m are replaced by depreciation of the right of use asset and notional financing costs on the lease liability under IFRS 16. This adjustment has been reversed to calculate the adjusted EBITDA(3)

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

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

	2019 £m	2018 £m
EBITDA (adjusted)(3)	129.1	122.0
Workings capital	(7.4)	4.9
Net cash flows from operating activities before non-underlyings	121.7	126.9
Capital expenditure	(65.9)	(59.0)
Free Cash Flow	**55.8**	**67.9**

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

	Called Up Share Capital £m	Profit and Loss Account £m	Total Shareholders' Deficit £m
Balance at 1 January 2019	**-**	**(3.0)**	**(3.0)**
Result for the financial year	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**
Balance at 31 December 2019	**-**	**(3.0)**	**(3.0)**

For the year ended 31 December 2018

	Called Up Share Capital £m	Profit and Loss Account £m	Total Shareholders' Deficit £m
Balance as at 1 January 2018	**-**	**(3.0)**	**(3.0)**
Result for the financial year	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**
Balance at 31 December 2018	**-**	**(3.0)**	**(3.0)**

PARENT COMPANY BALANCE SHEET
As at 31 December 2019

	Note	2019 £m	2018 £m
FIXED ASSETS			
Investments	3	-	-
CURRENT ASSETS			
Debtors	4	111.3	97.0
TOTAL CURRENT ASSETS		111.3	97.0
TOTAL ASSETS		111.3	97.0
Creditors: Amounts falling due within one year	5	(3.0)	(3.0)
TOTAL ASSETS LESS CURRENT LIABILITIES		108.3	94.0
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
Investor Loan	9	(111.3)	(97.0)
NET LIABILITIES		(3.0)	(3.0)
CAPITAL AND RESERVES			
Called Up Share Capital	6	-	-
Profit and Loss account	8	(3.0)	(3.0)
TOTAL SHAREHOLDERS' DEFICIT		(3.0)	(3.0)

The Company made a result in the year of £nil (2018: result of £nil).

These financial statements on pages 77 to 80 were approved by the Board of Directors and signed on its behalf by:

Joanna Boydell
Director

30 July 2020

1 BASIS OF PREPARATION

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

The principal accounting policies adopted have been consistently applied throughout the year and are set out in note 2.

2 SIGNIFICANT ACCOUNTING POLICIES

Investments in subsidiary undertakings
Investments are stated at cost. Any impairment in the value of these investments is charged to the profit and loss account.

Related party transactions
As permitted by FRS102 (section 33) 'Related party disclosure' the Company has not disclosed related party transactions with wholly owned subsidiaries, which are disclosed in the financial statements of the Group.

Employees
The Company has no employees (2018: nil).

Cash flow statement
Under FRS102 (section 1), the Company is exempt from the requirement to prepare a cash flow statement as it has included the Company's cash flows in its own published consolidated financial statements.

3 INVESTMENTS

	Shares in subsidiaries £
Cost and net book value	
At 1 January 2019	1
At 31 December 2019	**1**

The Parent Company has investments in the subsidiary undertakings, as listed in the Subsidiary Undertakings note (consolidated financial statements note 13), which principally affect the profits or net assets of the Company. The Directors consider the value of the investments to be supported by the value of the underlying assets.

All subsidiary undertakings were acquired on 12 October 2012. The investment of £1 represents investment in Full Moon Holdco 4 Limited, the only directly owned subsidiary.

4 DEBTORS

	2019 £m	2018 £m
Amounts owed by Group undertakings	**111.3**	**97.0**

Amounts owed by Group undertakings are repayable on demand.

Interest accrued in the year is £14.3m (2018: £14.3m) and the total balance including accrued interest was £111.3m (2018: £97.0m). Interest is accrued at 15% (2018: 15%).

5 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £m	2018 £m
Amounts owed to group undertakings	**(3.0)**	(3.0)

Amounts owed by Group undertakings are repayable on demand.

6 CALLED UP SHARE CAPITAL

	2019 & 2018 Number of shares	2019 & 2018 £
Authorised:		
Ordinary shares of £0.000001 each	1,000,000	1
	1,000,000	1

	2019 & 2018 Number of shares	2019 & 2018 £
Called up, allotted and fully paid:		
Ordinary shares of £0.000001 each	1,000,000	1
	1,000,000	1

7 PROFIT AND LOSS

As permitted by Section 408(4) of the Companies Act 2006 the Company has elected not to present its own Income Statement for the year.

The Company made a result in the year of £nil (2018: result of £nil).

8 PROFIT AND LOSS ACCOUNT

	2019 £m	2018 £m
At 1 January 2019	**(3.0)**	(3.0)
Result for the financial year	**-**	-
At 31 December 2019	**(3.0)**	(3.0)

9 RELATED PARTY TRANSACTIONS AND ULTIMATE CONTROLLING PARTY

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

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

Anchor Holdings SCA has provided the Company with an investor loan of £95.0m (2018: £95.0m). None of the accrued interest relating to this loan was repaid during 2019 (2018: £34.6m). The loan accrues interest at 15.0% (2018: 15.0%) per annum.

Interest accrued in the year is £14.3m (2018: £14.3m) and the total balance including accrued interest was £111.3m (2018: £97.0m). The loan note is due for repayment in 2026.