TVL FINANCE PLC

Full Year Results for the Year Ended 31 December 2018

REPORT TO NOTEHOLDERS

£232,000,000 8.5% SENIOR SECURED NOTES DUE 2023

£195,000,000 SENIOR SECURED FLOATING RATE NOTES DUE 2023

(the "Notes")

CONTENTS

Capitalised terms not otherwise defined in this Interim Report shall have the meanings assigned to such terms in the offering memorandum of TVL Finance PLC relating to the Notes dated 28 April 2017 (the "Offering Memorandum").

PRESENTATION OF FINANCIAL DATA

The report summarises the consolidated financial data and operating data from the consolidated financial statements of Thame & London Limited and its subsidiaries ("the Group") which include TVL Finance PLC. For management reporting purposes we use a 5-4-4 week accounting calendar. This accounting method divides our fiscal year into four quarters, each comprising two period of four weeks and one period of five weeks. We have adopted this accounting method because it allows us to manage our business on the basis of 52 weekly periods which consistently end on the same weekday. In order to align this method with our statutory annual accounting period on the basis of a calendar year from 1 January to 31 December, we make certain adjustments to our results in the last period of each fiscal year. The Group will continue to present its consolidated financial statements going forward and will apply similar adjustments, in accordance with IFRS, to its interim financial statements.

The summary financial information provided has been derived from our records for the year from 1 January 2018 to 31 December 2018 (prior year from 1 January 2017 to 31 December 2017), which are maintained in accordance with International Financial Reporting Standards ("IFRS").

We have presented certain non-IFRS information in this quarterly report. This information includes "EBITDA - adjusted", which represents earnings before interest, tax, depreciation and amortisation as well as exceptional items (material non- recurring and one-off in nature) as defined by IFRS and the rent free adjustment.

Management believe that EBITDA (adjusted) is meaningful for investors because it provides an analysis of our operating results, profitability and ability to service debt and because EBITDA (adjusted) is used by the management of the Group to track our business performance, establish operational and strategic targets and make business decisions.

DISCLAIMER

This report is for information purposes only and does not constitute an offer to sell or the solicitation of an offer to buy securities. This report does not contain all of the information this is material to an investor.

FORWARD LOOKING STATEMENTS

This report contains "forward-looking statements" as that term is defined by the U.S. federal securities laws and within the meaning of the securities laws of certain other jurisdictions. These forward looking statements include, without limitation, those regarding our intentions, beliefs or current expectations concerning our future financial condition or performance, result of operations and liquidity; our strategy, plans, objectives, prospects, growth, goals and targets; future developments in the markets in which we participate or are seeking to participate; and anticipated regulatory changes in the industry in which we operate.

These statements often include words such as "anticipate", " believe", "could", "estimates", expect", "forecast", "intend", "may", "plan", "projects", "should", "suggests", "targets", "would", "will" and other similar expressions. These statements are not guarantees of performance or results. Many factors could affect our actual financial results or results of operations and could cause actual results to differ materially from those expressed in the forward-looking forward looking statements and projections.

We undertake no obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward looking statements to reflect events or circumstances after the date of this report

TVL Finance plc

Update for the year ended 31 December 2018 (Unaudited)

Strategic progress driving excellent results

Highlights – Full Year 2018

- Total revenue **up 8.8%** to £693.3m (2017: £637.1m)
- RevPAR(1) **up 3.2%** to £41.69 (2017: £40.40)
- RevPAR growth **2.3pts ahead** of competitive segment (2)
- Occupancy(1) **up 2.5pts** to 78.5%
- Average room rate(1) maintained at £53.09 (2017: £53.13)
- EBITDA (adjusted) (3) **up £9.6m** to £122.0m
- Cash of **£81.8m** at 31 December 2018
- **17 new hotels** opened in the year, further 3 shortly after year end
- 'SuperRooms' rolled out across 47 hotels
- First 'Travelodge Plus' hotels launched
- Network now 575 hotels/43,840 rooms (up 4%)(4)

Five Year Transformation 2013 - 2018

- Sales up more than £250m
- EBITDA more than trebled to £122m

Peter Gowers, Travelodge Chief Executive commented:

"Our strategic focus on location, price and quality has enabled Travelodge to deliver a set of excellent results. We extended our network of hotels, remained focused on delivering attractive prices and took another step forward on quality. Once again we outperformed our competitive segment and delivered another year of strong growth, with EBITDA up £9.6m to £122m. These are uncertain times and we are not immune from the short-term challenges, but beyond, we remain confident that there are more opportunities ahead."

Peter continued:

"These results highlight Travelodge's transformation over the last five years. Over that period, Travelodge's sales are up by more than £250m, we've outperformed our competitive segment for five years in a row, opened more than 60 new hotels and more than trebled our profitability. We've invested in better quality and choice for our guests, while staying true to our budget roots. People are noticing the difference, culminating in our being recognised, for the first time, as one of the world's top ten global hotel chains by TripAdvisor. The long-term growth opportunities for the budget sector remain strong and we expect to open 100 new hotels over the next five years, creating approximately 3,000 jobs."

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[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 (adjusted) = Earnings before interest, taxes, depreciation and amortisation, and before rent free adjustment and exceptional items
[4] As at 31 December 2018

Summary

Travelodge delivered total revenue growth of 8.8% in 2018, with 3.2% like-for-like RevPAR growth and a significant contribution from new hotels opened since 2017.

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

This strong growth has helped to mitigate the impact of significant cost increases, particularly the National Living Wage, business rates and the costs associated with our improved occupancy. EBITDA of £122.0m was up £9.6m on the prior year.

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

Outlook and Recent Trading

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

The first quarter of the year is our smallest in revenue terms and our lowest occupancy period, with typically lower levels of business and leisure demand. In the first 8 weeks of the year, the STR MSE segment has seen mixed trading. Overall the STR MSE segment RevPAR is down (2.3)%[(4)], with relatively strong London growth offset by declining performance in the Regions. Travelodge has continued to outperform the segment, largely as a result of stronger occupancy. Our new opening programme remains on-track, with the majority of our new hotels for 2019 expected to open in the final quarter of the year.

Financial Performance

<u>For the year ended 31 December 2018:</u>

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

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

The positive like-for-like sales growth, together with good growth in food and beverage sales and the contribution from our maturing new hotels opened since the beginning of 2017, has resulted in total revenue growth of 8.8% for the year, to £693.3m.

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

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

[4] *STR MS&E RevPAR growth 27 Dec 18 to 20 Feb 19*

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

We continued our ongoing productivity and efficiency programme and this helped to mitigate the overall impact of the cost pressures, and EBITDA increased by £9.6m to £122.0m (2017: £112.4m).

The business continues to generate strong cashflow with a closing cash balance of £81.8m at the period end. We also benefit from our long-term facilities including an undrawn £50m RCF.

<u>For the quarter (13 weeks) ended 31 December 2018:</u>

UK like-for-like RevPAR was up 3.9% to £41.04, 2.1pts ahead of the growth rate of the STR MSE segment, which was up 1.8%[(5)]. This strong performance was driven by a focus on effective revenue management with strong growth in UK like-for-like occupancy of 3.3pts to 78.3%, while UK like-for-like average room rate was maintained at £52.41 (2017: £52.61).

The positive like-for-like sales growth, together with good growth in food and beverage sales and the contribution from our maturing new hotels, including the 7 new hotels opened in the quarter, resulted in total revenue growth of 11.2% for the quarter to £175.7m.

This strong revenue growth has helped offset the impact of the significant cost pressures, as well as higher operational costs driven as a result of our improved occupancy.

EBITDA in the quarter increased by £4.6m to £24.7m (2017: £20.1m).

Operational Update

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

Location

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

The Travelodge network stood at 575 hotels across the UK, Ireland and Spain at the end of 2018 with a further 3 opened shortly after the year end. At this early stage of the year we remain on track with our new opening programme for 2019. We expect to open 20 new hotels in the year with the majority scheduled to open in the final quarter.

Price

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

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[5] *STR MS&E RevPAR growth 27 Sep 18 to 26 Dec 18*

Quality

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

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

Five year review

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

We have extended our hotel network, opening more than 60 new hotels and increasing our presence in key city centres, business parks and leisure destinations. We now have more than 575 hotels, operating across the UK, Ireland and Spain. More than 180 of our hotels now have on-site bar cafe restaurants. The changing shape of our network reflects the changes to the needs of our customers and we have come a long way from our original beginnings as a roadside hotel chain, with the majority of our revenues now coming from city centre locations.

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

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

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

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

	2013	**2018**	**Increase**
RevPAR	£29.36	£41.69	+ £12.33
Total Revenue	£432.6m	£693.3m	+ £260.7m
EBITDA	£40.5m	£122.0m	+ £81.5m
Network Size (rooms)	38,295	43,840	+ 5,545 rooms

Accounting Standards Update

In common with many other UK operators of long-term leases, the group will be required to adopt IFRS16, a new lease accounting standard, for accounting periods beginning on or after 1 January 2019.

The new standard will have no economic impact on the business and will not change the way the business is run. Initial views from our rating agencies are that it is also not expected to have an impact on their approach to rating the business.

It will, however, have 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. As at 1 January 2019, the standard will increase fixed assets, representing the right of use relating to leasehold obligations, by approximately £2.3bn and increase liabilities, representing the discounted value of future lease liabilities, by approximately £(2.5)bn. In addition, based on property leases in existence as at 1 January 2019, with a weighted average discount rate of 7.0%, we estimate that 2019 reported profit before tax will be reduced by approximately £50m-60m as a result of adopting the new standard.

Further details of the expected changes to the statements as a result of the standard can be found in the notes to the financial statements.

About Travelodge

Founded in 1985, Travelodge is one of the UK's leading hotel brands. There were 575 Travelodge hotels and 43,840 rooms in the UK, Ireland and Spain as at 31 December 2018. Travelodge welcomes approximately 19 million customers every year and more than 10,000 colleagues work across the business.

Notes:

Financial results in this summary document are extracts from the management reporting of Thame and London Limited and its subsidiary companies, including Travelodge Hotels Limited. All financial references in this summary document are unaudited.

Smith Travel Research (STR) is an independent hotel research provider, providing aggregate benchmarking information on the UK and other hotel market performance.

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OPERATING AND FINANCIAL REVIEW

Unaudited results of operations for the year ended 31 December 2018.

	Year ended 31 Dec 2018 £m	**Year ended 31 Dec 2017** £m	Var £m	Var %
Revenue by geographical region				
Revenue	**693.3**	**637.1**	**56.2**	**8.8%**
Revenue UK	680.1	624.0	56.1	9.0%
Revenue International	13.2	13.1	0.1	0.8%
Key income statement items				
Revenue	**693.3**	**637.1**	**56.2**	**8.8%**
Operating expenses	(374.4)	(341.7)	(32.7)	(9.6)%
Of which cost of goods sold	*(42.6)*	*(39.6)*	*(3.0)*	*(7.6)%*
Of which employee costs	*(165.6)*	*(150.2)*	*(15.4)*	*(10.3)%*
Of which other operating expenses	*(166.2)*	*(151.9)*	*(14.3)*	*(9.4)%*
Net external rent payable	(196.9)	(183.0)	(13.9)	(7.6)%
EBITDA (adjusted) (1)	**122.0**	**112.4**	**9.6**	**8.5%**
Rent free adjustment (2)	(1.9)	(2.4)	0.5	20.8%
Depreciation	(42.2)	(35.0)	(7.2)	(20.6)%
Amortisation	(16.6)	(16.5)	(0.1)	(0.6)%
Operating profit (before exceptional items)	**61.3**	**58.5**	**2.8**	**4.8%**
Finance costs before investor loan interest	(39.3)	(39.9)	0.6	1.5%
Investor loan interest	(14.3)	(14.3)	-	-
Finance income	0.9	0.3	0.6	200.0%
Income tax	0.9	(1.9)	2.8	147.4%
Profit for the year (before exceptional items)	**9.5**	**2.7**	**6.8**	**251.9%**
Exceptional items	(13.7)	(13.4)	(0.3)	(2.2)%
Loss for the year	**(4.2)**	**(10.7)**	**6.5**	**60.7%**

(1) - EBITDA (adjusted) = Earnings before interest, taxes, depreciation and amortisation, and before rent free adjustment and exceptional items (which is consistent with our internal management reporting and statutory reporting of our main UK trading entity under FRS 102). Exceptional items have been removed as they relate to non-recurring, one-off items.

(2) - In many of our leases we receive a rent free period at the beginning of the lease term. Under IFRS, the benefit of this rent free period is held as deferred income on our balance sheet and is recognised in our income statemement 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 £56.2m, or 8.8%, from £637.1m for the year ended 31 December 2017 to £693.3m for the year ended 31 December 2018. This increase was primarily due to like-for-like UK RevPAR growth of 3.2%, maturity of the 15 new hotels opened in 2017 and the 17 new hotels opened in the year. We also achieved strong revenue growth in food and beverage. Like-for-like UK RevPAR growth of 3.2% was ahead of the STR MSE segment by 2.3pts, which showed growth of 0.9%. Spain’s growth was impacted by the political uncertainty in Catalonia during the first half of the year.

Operating expenses

Operating expenses increased by £32.7m, or 9.6%, from £341.7m for the year ended 31 December 2017 to £374.4m for the year ended 31 December 2018. Cost increases were driven by a combination of occupancy growth, the cost pressures on the like-for-like estate and by increased costs from our new and maturing hotels opened since 2017.

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

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

Net external rent payable

Net external rent payable increased by £13.9m, or 7.6%, from £183.0m for the year ended 31 December 2017 to £196.9m for the year ended 31 December 2018. This increase was primarily due to 17 new hotel openings during the year, the annualisation of 15 new hotel openings in 2017 and upwards only rent reviews predominantly linked to RPI.

Depreciation / amortisation

Depreciation increased by £7.2m, or 20.6%, from £35.0m for the year ended 31 December 2017 to £42.2m for the year ended 31 December 2018. This is mainly due to new hotel openings and investment in maintenance, refurbishment and upgrading our hotels to offer SuperRooms, Travelodge Plus and improved Wi-Fi.

Amortisation increased by £0.1m, or 0.6%, from £16.5m for the year ended 31 December 2017 to £16.6m for the year ended 31 December 2018. This is mainly due to ongoing website development.

Finance costs

Finance costs before investor loan interest decreased by £0.6m, or 1.5%, from £39.9m for the year ended 31 December 2017 to £39.3m for the year ended 31 December 2018. The decrease was primarily due to the lower bond interest costs following the refinancings in April 2017 and January 2018. Finance fees of £1.8m include the movement in the fair value of the swap option of £0.3m.

Finance income

Finance income of £0.9m for the year ended 31 December 2018 is bank interest received. The year on year increase of £0.6m from £0.3m for the year ended 31 December 2017 was primarily due to amounts received in respect of 2017 in April 2018 and an increase in the LIBOR rate during 2018.

Taxation

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

There is an overall income tax credit of £0.9m for the period 1 January 2018 to 31 December 2018. This breaks down between a current tax charge of £2.0m and a deferred tax credit of £2.9m. The overall income tax charge of £1.9m for the period from 1 January 2017 to 31 December 2017 related to deferred tax only.

The current tax charge of £2.0m for the period from 1 January 2018 to 31 December 2018 relates to profits for the period charged at the current rate of corporation tax, including charges relating to items disallowed for tax purposes, offset by differences between accounting depreciation and capital allowances and the use of brought forward tax losses. The current tax charge principally arises as a result of the impact of the legislative changes in relation to the deductibility of interest and the use of carried forward losses. Also included in the current tax charge is £0.9m overseas tax relating to taxable profits arising from Spanish operations. There was no current tax charge for the period from 1 January 2017 to 31 December 2017.

The deferred tax credit of £2.9m for the period from 1 January 2018 to 31 December 2018 is made up of a current period charge of £2.8m and a prior period adjustment of £5.7m (credit). The current year deferred tax charge of £2.8m relates to differences between accounting depreciation and capital allowances as well as the use of brought forward tax losses, offset by changes in deferred tax on intangible assets and unrelieved interest. The prior period adjustment of £5.7m (credit) relates principally to an adjustment in the difference between accounting depreciation and capital allowances. The deferred tax charge for the period from 1 January 2017 to 31 December 2017 was £1.9m.

Cash tax payments of £0.7m were made during the year (2017: £nil).

Exceptional items

Exceptional items increased by £0.3m, or 2.2%, from £13.4m for the year ended 31 December 2017 to £13.7m for the year ended 31 December 2018.

Exceptional items 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 are a net provision reassessment charge of £1.1m, 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.

Exceptional charges of £13.4m for the year ended 31 December 2017 included £8.6m of charges in respect of the costs of early redemption, legal and advisors’ fees and management incentives relating to the restructuring of the Group’s debt and other exceptional corporate activities, together with a charge of £3.2m relating to the relevant portion of 2016 prepaid fees released on repayment of the previous floating rate bond and a net rent provision reassessment charge of £2.9m, partially offset by other provision reassessment credits of £1.3m.

Cash flow

As at 31 December 2018, we had cash of £81.8m, a decrease of £13.2m compared to £95.0m as at 31 December 2017. Operating cash inflows for the year ended 31 December 2018 of £117.1m were partially offset by investing cash outflows of £58.2m, which relate to the purchase of intangible and tangible fixed assets of £59.0m less interest received of £0.8m, financing cash outflows during the year of £71.4m and corporate tax of £0.7m.

Included in financing cash outflows of £71.4m was the partial repayment in January 2018 of the existing senior secured fixed rate sterling denominated notes of £29.0m, offset by the issue of new senior secured floating rate sterling denominated notes of £30.0m; together with bond interest payments and finance fees of £31.9m, refinancing transaction costs of £1.4m and finance lease interest payments of £4.5m. Additionally a repayment of accrued interest on the investor loan of £34.6m occurred in December 2018.

Our cash cycle reflects the monthly payment of creditors and staff 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.

	Year ended 31 Dec 2018 £m	**Year ended 31 Dec 2017** £m	Var £m	Var %
Net cash generated from operating activities	117.1	113.6	3.5	3.1%
Net cash used in investing activities	(58.2)	(50.4)	(7.8)	(15.5)%
Net cash used in financing activities	(71.4)	(42.1)	(29.3)	(69.6)%
Corporate tax	(0.7)	-	(0.7)	-
Net increase in aggregate cash and cash equivalents	(13.2)	21.1	(34.3)	(162.6)%
Cash and cash equivalents at beginning of year	95.0	73.9	21.1	28.6%
Cash and cash equivalents at the end of the year	**81.8**	**95.0**	**(13.2)**	**(13.9)%**

Net cash generated from operating activities

Net cash generated from operating activities increased by £3.5m, or 3.1%, from £113.6m for the year ended 31 December 2017 to £117.1m for the year ended 31 December 2018. This was due primarily to an increase in depreciation and amortisation of £7.3m and an impairment of fixed assets of £6.7m, partially offset by a lower operating profit of £(1.5)m and a decrease of £(9.0)m in working capital (which was primarily attributable to the surrender of the lease at our closed Gatwick Airport hotel).

Working capital requirements

Inventory primarily includes food and beverage products sold through our bar cafes. Trade and other receivables 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, accrued wages and salaries, other current debts and accrued interest and taxes.

	Year ended 31 Dec 2018 £m	**Year ended 31 Dec 2017** £m	Var £m	Var %
(Increase) / Reduction in inventory	(0.1)	0.4	(0.5)	(122.5)%
(Increase) in receivables	(4.7)	(1.6)	(3.1)	202.9%
Increase in payables	11.6	11.8	(0.2)	(1.6)%
Total working capital movement (before exceptional items)	6.8	10.6	(3.8)	(36.0)%
Provisions and exceptional items	(4.2)	1.0	(5.2)	-
Total working capital movement	**2.6**	**11.6**	**(9.0)**	**(77.6)%**

Working capital inflow before exceptional items of £6.8m for the year to 31 December 2018 compared to an inflow of £10.6m for the year to 31 December 2017 is impacted mainly by the timing of property costs (rent, insurance, service charges etc.) and creditor payments around the year end.

Working capital inflow after exceptional items of £2.6m for year ended 31 December 2018 compared to an inflow of £11.6m for the year ended 31 December 2017 is driven primarily by provisions utilised on the surrender of the lease at our closed Gatwick Airport hotel.

Net cash used in investing activities

Net cash used in investing activities increased by £7.8m, or 15.5%, from £50.4m for the year ended 31 December 2017 to £58.2m for the year ended 31 December 2018, primarily due to changes in capital expenditure.

Capital expenditure

Capital expenditure of £59.0m in the year to 31 December 2018 has mainly been in relation to on-going maintenance and refits, including SuperRooms and Travelodge Plus. 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 the 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 increased by £29.3m, or 69.6%, from £42.1m for the year ended 31 December 2017 to £71.4m for the year ended 31 December 2018. This was primarily due to bond funding inflow in 2017 of £31.2m (net amount of bond issue, bond repayment, and transaction costs), which compares to bond funding inflow in 2018 of £0.2m, partially offset by a reduction in interest and finance fees of £1.3m and a lower repayment of accrued interest on the investor loan of £0.4m.

Corporation tax

Corporation tax payments on account of £0.7m were made during the year (2017: £nil).

OPERATING AND FINANCIAL REVIEW

Unaudited results of operations for the quarter ended 31 December 2018 (Q4).

	Quarter from 27 Sep 2018 to 31 Dec 2018 £m	Quarter from 28 Sep 2017 to 31 Dec 2017 £m	Var £m	Var %
Revenue	**175.7**	**158.0**	**17.7**	**11.2%**
Revenue UK	172.5	155.2	17.3	11.1%
Revenue International	3.2	2.8	0.4	14.3%
Key income statement items				
Revenue	**175.7**	**158.0**	**17.7**	**11.2%**
Operating expenses	(100.4)	(90.5)	(9.9)	(10.9)%
Of which cost of goods sold	*(10.8)*	*(9.7)*	*(1.1)*	*(11.3)%*
Of which employee costs	*(44.6)*	*(39.7)*	*(4.9)*	*(12.3)%*
Of which other operating expenses	*(45.0)*	*(41.1)*	*(3.9)*	*(9.5)%*
Net external rent payable	(50.6)	(47.4)	(3.2)	(6.8)%
EBITDA (adjusted) (1)	**24.7**	**20.1**	**4.6**	**22.9%**
Rent free adjustment (2)	(0.5)	(0.5)	-	-
Depreciation	(11.4)	(9.5)	(1.9)	(20.0)%
Amortisation	(4.1)	(4.2)	0.1	2.4%
Operating profit (before exceptional items)	**8.7**	**5.9**	**2.8**	**47.5%**
Finance costs before investor loan interest	(10.2)	(9.7)	(0.5)	(5.2)%
Investor loan interest	(3.7)	(3.7)	-	-
Finance income	0.3	0.1	0.2	200.0%
Income tax	7.5	0.9	6.6	-
Profit / (loss) for the period (before exceptional items)	**2.6**	**(6.5)**	**9.1**	**140.0%**
Exceptional items	(9.9)	(3.7)	(6.2)	(167.6)%
Loss for the period	**(7.3)**	**(10.2)**	**2.9**	**28.4%**

(1) - EBITDA (adjusted) = Earnings before interest, taxes, depreciation and amortisation, and before rent free adjustment and exceptional items (which is consistent with our internal management reporting and statutory reporting of our main UK trading entity under FRS 102). Exceptional items have been removed as they relate to non-recurring, one-off items.

(2) - In many of our leases we receive a rent free period at the beginning of the lease term. Under IFRS, the benefit of this rent free period is held as deferred income on our balance sheet and is recognised in our income statemement 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 represents a closer measure of cash outflow.

Revenue

Revenue increased by £17.7m, or 11.2%, from £158.0m for the period from 28 September 2017 to 31 December 2017 to £175.7m for the period from 27 September 2018 to 31 December 2018. This increase was primarily due to like-for-like UK RevPAR growth of 3.9% and maturity of the new hotels opened since January 2017, including the 7 new hotels opened in the period. We also achieved strong revenue growth in food and beverage. Like-for-like UK RevPAR growth of 3.9% was ahead of the STR MSE segment by 2.1pts, which showed growth of 1.8%.

Operating expenses

Operating expenses increased by £9.9m, or 10.9%, from £90.5m for the period from 28 September 2017 to 31 December 2017 to £100.4m for the period from 27 September 2018 to 31 December 2018. Cost increases were driven by a combination of occupancy growth, the cost pressures on the like-for-like estate and increased costs from our new and maturing hotels opened since 2017.

Increases in cost of goods sold reflect growth in our food and beverage sales, including the impact of occupancy growth and the new and maturing hotels.

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

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

Net external rent payable

Net external rent payable increased by £3.2m, or 6.8%, from £47.4m for the period from 28 September 2017 to 31 December 2017 to £50.6m for the period from 27 September 2018 to 31 December 2018. This increase was primarily due to 7 new hotel openings during the period, the additional 10 opened earlier in the year and the annualisation of new hotel openings in 2017 and upwards only rent reviews predominantly linked to RPI.

Depreciation / amortisation

Depreciation increased by £1.9m, or 20.0%, from £9.5m for the period from 28 September 2017 to 31 December 2017 to £11.4m for the period from 27 September 2018 to 31 December 2018. This is mainly due to new hotel openings and investment in maintenance, refurbishment and upgrading our hotels to offer SuperRooms, Travelodge Plus and improved Wi-Fi.

Amortisation decreased by £0.1m, or 2.4%, from £4.2m for the period from 28 September 2017 to 31 December 2017 to £4.1m for the period from 27 September 2018 to 31 December 2018.

Finance costs

Finance costs before investor loan interest increased by £0.5m, or 5.2%, from £9.7m for the period from 28 September 2017 to 31 December 2017 to £10.2m for the period from 27 September 2018 to 31 December 2018. This increase was primarily due to the impact of changes in LIBOR on bond interest costs and a £0.3m increase in finance fees including the movement in the fair value of the swap option.

Finance income

Finance income of £0.3m for the period from 27 September 2018 to 31 December 2018 is bank interest received. The year on year increase from £0.1m for the period from 28 September 2017 to 31 December 2017 was primarily due to the increase in LIBOR rate.

Exceptional items

Exceptional items were £9.9m for the period from 27 September 2018 to 31 December 2018 compared to £3.7m for the period from 28 September 2017 to 31 December 2017. The charge of £9.9m included £6.7m for the impairment of fixed assets, £3.6m for charges in respect of the costs of early redemption, legal and advisors' fees, management incentives relating to the restructuring of the Group's debt and other exceptional corporate activities. Also included is a net provision reassessment charge of £1.1m and an inflow of £1.5m relating to the surrender of the lease at Cambridge Lolworth.

Exceptional items of £3.7m for the period from 28 September 2017 to 31 December 2017 included £2.1m of charges in respect of the costs of early redemption, legal and advisors' fees, management incentives relating to the restructuring of the Group's debt and other exceptional corporate activities and a net rent provision reassessment charge of £2.9m, partially offset by other provision reassessment credits of £1.3m.

RISK FACTORS

Note holders are reminded that investing in the Notes involves substantial risks and Note holders should refer to the "Risk Factors" section of the Offering Memorandum, published on 28 April 2017, and the 2017 Annual Report for the year ended 31 December 2017 for a description of the risks that they should consider when making investment decisions about the Notes.

As outlined in the 2017 Annual Report Travelodge faces a number of risks relating to the terms of Brexit with the most significant of these risks outlined below.

- Potential changes to UK GDP growth and business confidence may adversely impact consumer demand for hotel accommodation.
- Changes to the inflationary and interest rate environment may impact on our cost base with a significant proportion of the cost base, including rent, inflation linked.
- Changes to border and immigration policies may impact our ability to recruit and retain staff at current pay levels resulting in increased cost of recruitment and wage inflation. Key elements of our supply chain face similar risk which may result in increased costs.
- Other factors such as the value of sterling or the imposition of tariffs and the associated impact on supplier costs.
- Investor confidence negatively impacts willingness to fund new investment projects which may impact our development pipeline.

Registered number: 08170768

THAME AND LONDON LIMITED

UNAUDITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

THAME AND LONDON LIMITED
CONDENSED CONSOLIDATED PROFIT AND LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Unaudited Year ended 31 Dec 2018			Audited Year ended 31 Dec 2017		
	Before exceptional items £m	**Exceptional items £m**	**After exceptional items £m**	**Before exceptional items £m**	**Exceptional items £m**	**After exceptional items £m**
Revenue	693.3	-	**693.3**	637.1	-	**637.1**
Operating Expenses	(374.4)	(5.2)	**(379.6)**	(341.7)	(5.1)	**(346.8)**
Rent	(198.8)	(0.4)	**(199.2)**	(185.4)	(2.9)	**(188.3)**
EBITDA after rent free adjustment	**120.1**	**(5.6)**	**114.5**	**110.0**	**(8.0)**	**102.0**
Depreciation / Amortisation	(58.8)	(6.7)	**(65.5)**	(51.5)	-	**(51.5)**
Operating Profit	**61.3**	**(12.3)**	**49.0**	**58.5**	**(8.0)**	**50.5**
Finance Costs	(53.6)	(1.4)	**(55.0)**	(54.2)	(5.4)	**(59.6)**
Finance Income	0.9	-	**0.9**	0.3	-	**0.3**
Profit / (Loss) before Tax	**8.6**	**(13.7)**	**(5.1)**	**4.6**	**(13.4)**	**(8.8)**
Income Tax	0.9	-	**0.9**	(1.9)	-	**(1.9)**
Profit / (Loss) for the Year	**9.5**	**(13.7)**	**(4.2)**	**2.7**	**(13.4)**	**(10.7)**

Memorandum - EBITDA (adjusted) (1)

	Year ended 31 December 2018 £m	**Year ended 31 December 2017 £m**
EBITDA (adjusted) (1)	**122.0**	**112.4**
Rent free adjustment (2)	**(1.9)**	(2.4)
EBITDA after rent free adjustment	**120.1**	**110.0**
Exceptional items	**(5.6)**	(8.0)
EBITDA after rent free adjustment and exceptional items	**114.5**	**102.0**

1. EBITDA (adjusted) = Earnings before interest, taxes, depreciation and amortisation, and before rent free adjustment and exceptional items (which is consistent with our internal management reporting and statutory reporting of our main UK trading entity under FRS 102). Exceptional items have been removed as they relate to non-recurring, one-off items.

2. In many of our leases we receive a rent free period at the beginning of the lease term. Under IFRS, the benefit of this rent free period is held as deferred income on our balance sheet and is recognised in our income statemement 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.

THAME AND LONDON LIMITED
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Unaudited Year ended 31 Dec 2018 £m	Audited Year ended 31 Dec 2017 £m
Loss for the year	(4.2)	(10.7)
Items that will subsequently be reclassified into profit and loss:		
Movement on fair value of cash flow hedges	**-**	**(0.2)**
Currency translation differences	**0.3**	**(0.4)**
Other comprehensive income / (expense) for the year, net of tax	**0.3**	**(0.6)**
Total comprehensive expense for the year	**(3.9)**	**(11.3)**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2018

	Foreign Exchange Reserve £m	Cash Flow Hedge Reserve £m	Accumulated Losses £m	Total deficit £m
1 January 2018	**(0.6)**	**0.4**	**(89.5)**	**(89.7)**
Loss for the year	-	-	(4.2)	**(4.2)**
Other comprehensive income				
Movement in fair value of hedging derivatives	-	-	-	**-**
Currency translation differences	0.3	-	-	**0.3**
Total comprehensive income / (expense)	**0.3**	**-**	**(4.2)**	**(3.9)**
31 December 2018	**(0.3)**	**0.4**	**(93.7)**	**(93.6)**

FOR THE YEAR ENDED 31 DECEMBER 2017

	Foreign Exchange Reserve £m	Cash Flow Hedge Reserve £m	Accumulated Losses £m	Total deficit £m
1 January 2017	**(0.2)**	**0.6**	**(78.8)**	**(78.4)**
Loss for the year	-	-	(10.7)	**(10.7)**
Other comprehensive expense				
Movement in fair value of hedging derivatives	-	(0.2)	-	**(0.2)**
Currency translation differences	(0.4)	-	-	**(0.4)**
Total comprehensive expense	**(0.4)**	**(0.2)**	**(10.7)**	**(11.3)**
31 December 2017	**(0.6)**	**0.4**	**(89.5)**	**(89.7)**

THAME AND LONDON LIMITED
CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2018

	Unaudited 31 Dec 2018 £m	Audited 31 Dec 2017 £m
NON CURRENT ASSETS		
Intangible assets	**365.3**	**380.0**
Property, plant and equipment	**140.0**	**132.4**
Financial derivative asset	**0.5**	**0.7**
Deferred tax asset	**47.4**	**52.2**
	553.2	**565.3**
CURRENT ASSETS		
Inventory	**1.1**	**1.0**
Trade and other receivables	**53.6**	**48.7**
Cash and cash equivalents	**81.8**	**95.0**
	136.5	**144.7**
TOTAL ASSETS	**689.7**	**710.0**
CURRENT LIABILITIES		
Trade and other payables	**(140.0)**	**(132.5)**
	(140.0)	**(132.5)**
NON-CURRENT LIABILITIES		
Bond related debt	**(420.8)**	**(418.4)**
Investor loan	**(97.0)**	**(117.4)**
Obligations under finance leases	**(32.8)**	**(32.2)**
Deferred tax liability	**(60.5)**	**(67.9)**
Deferred income	**(15.3)**	**(10.4)**
Provisions	**(16.9)**	**(20.9)**
	(643.3)	**(667.2)**
TOTAL LIABILITIES	**(783.3)**	**(799.7)**
NET LIABILITIES	**(93.6)**	**(89.7)**
EQUITY		
Foreign exchange reserve	**(0.3)**	**(0.6)**
Cash flow hedge reserve	**0.4**	**0.4**
Accumulated losses	**(93.7)**	**(89.5)**
TOTAL EQUITY	**(93.6)**	**(89.7)**

Memorandum - Analysis of net funding	***£m***	***£m***
Cash at bank	***81.8***	***95.0***
External debt redeemable (excluding finance leases):		
Fixed Rate Bond	***(232.0)***	***(261.0)***
Floating Rate Bond	***(195.0)***	***(165.0)***
Issue costs	***6.2***	***7.6***
Gross debt	***(420.8)***	***(418.4)***
External net debt	***(339.0)***	***(323.4)***
Investor loan	***(97.0)***	***(117.4)***
Finance leases	***(32.8)***	***(32.2)***
Net debt	***(468.8)***	***(473.0)***

THAME AND LONDON LIMITED
CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Unaudited Year ended 31 December 2018	Audited Year ended 31 December 2017
	£m	**£m**
NET CASH GENERATED FROM OPERATING ACTIVITIES	**117.1**	**113.6**
INVESTING ACTIVITIES		
Interest received	**0.8**	**0.2**
Purchases of property, plant and equipment and intangible assets	**(59.0)**	**(50.6)**
Net cash used in investing activities	**(58.2)**	**(50.4)**
FINANCING ACTIVITIES		
Finance fees paid (including exceptional items)	**(0.6)**	**(0.2)**
Interest paid	**(31.9)**	**(33.6)**
Finance lease payments	**(4.5)**	**(4.5)**
Issue of floating rate bonds	**30.0**	**165.0**
Repayment of fixed and floating rate bonds	**(29.0)**	**(129.0)**
Finance issue transaction costs	**(0.8)**	**(4.8)**
Repayment of accrued interest on investor loan	**(34.6)**	**(35.0)**
Net cash used in financing activities	**(71.4)**	**(42.1)**
Corporate tax	**(0.7)**	**-**
Net increase in aggregate cash and cash equivalents	**(13.2)**	**21.1**
Cash and cash equivalents at beginning of the year	95.0	73.9
Cash and cash equivalents at end of the year	**81.8**	**95.0**

Memorandum - Analysis of free cash flow [1]	***Unaudited Year ended 31 December 2018***	***Unaudited Year ended 31 December 2017***
	£m	***£m***
EBITDA (adjusted)[2]	***122.0***	***112.4***
Working capital	***4.9***	***8.2***
	126.9	***120.6***
Net cash flows from operating activities before exceptionals		
Capital expenditure	***(59.0)***	***(50.6)***
Free cash flow generated for the year	***67.9***	***70.0***
Non-trading cash flow		
Interest costs		
- bank interest paid	***(1.5)***	***(1.5)***
- bond interest paid	***(30.4)***	***(32.1)***
- finance fees paid	***(0.6)***	***(0.2)***
Interest income	***0.8***	***0.2***
Interest element of finance lease rental payments	***(4.5)***	***(4.5)***
Cash spend on provisions and exceptional items [3]	***(10.6)***	***(11.8)***
Non-trading cashflow	***(46.8)***	***(49.9)***
Corporate tax	***(0.7)***	***-***
Cash generated	***20.4***	***20.1***
Opening Cash	***95.0***	***73.9***
Movement in cash	***20.4***	***20.1***
Net refinancing proceeds	***1.0***	***36.0***
Repayment of investor loan note	***(34.6)***	***(35.0)***
Closing Cash	***81.8***	***95.0***
Opening external net debt	***(323.4)***	***(306.0)***
Net increase in aggregate cash	***(13.2)***	***21.1***
Net refinancing	***(1.0)***	***(36.0)***
Net finance issue transaction costs	***-***	***(1.0)***
Net amortised bond transaction costs	***(1.4)***	***(1.5)***
Closing net debt	***(339.0)***	***(323.4)***

1. Free cash flow is defined as cash generated before interest, exceptional costs, spend on provisions and financing.

2. EBITDA (adjusted) = Earnings before interest, taxes, depreciation and amortisation, and before rent free adjustment and exceptional items (which is consistent with our internal management reporting and statutory reporting of our main UK trading entity under FRS 102). Exceptional items have been removed as they relate to non-recurring, one-off items.

Reconciliation of net cash flows from operating activities before exceptionals to net cash generated from operating activities (note 13)

Net cash flows from operating activities before exceptionals	***126.9***	***120.6***
Cash spend on exceptional items through profit and loss	***0.1***	***(8.0)***
Cash spend on exceptional items through working capital [4]	***(9.9)***	***1.0***
Net cash generated from operating activities	***117.1***	***113.6***

3. In 2018, cash spend on provisions and exceptional items of £10.6m includes costs of refinancing the Travelodge Group of £0.9m and other costs of £11.2m, partially offset by an inflow of funds related to the surrender of the lease at Cambridge Lolworth of £1.5m. In 2017, cash spend on provisions and exceptional items of £11.8m includes costs of refinancing of £8.7m and other costs of £3.1m.

4. Cash spend on exceptional 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 ("T&L") is the holding company of the Travelodge group ("Travelodge" or "The Group"), including Travelodge Hotels Limited ("THL"), the principal trading company of Travelodge UK and TVL Finance PLC.

2 Significant accounting policies

New and Amended Standards

The following new and amended standards are effective for the year ending December 31, 2018 and have been adopted in these statements.

IFRS 9, 'Financial Instruments'
IFRS 15, 'Revenue from contracts with customers'

As the impact of adoption was immaterial no adjustment was necessary to the prior period figures previously presented.

Basis of consolidation

The unaudited financial statements consolidate the financial information of the Group and entities controlled by the Group and its subsidiaries up to 31 December 2018. 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.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the 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 principal revenue stream of the Group is providing budget hotel accommodation and is recognised when customers stay.

Exceptional items

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

Leasing

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

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

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

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

In common with many other UK operators of long-term leases, the Group will be required to adopt IFRS 16, a new lease accounting standard, for accounting periods beginning on or after 1 January 2019. The Group's evaluation of the effect of adoption of this standard is now completed.

The new standard will have no economic impact on the business and will not change the way the business is run. Initial views from our rating agencies are that it is also not expected to have an impact on their approach to rating the business.

It will, however, have 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 will materially increase 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 will also materially change the presentation and timing of recognition of charges in the Consolidated Income Statement. The operating lease expense currently reported under IAS 17, typically on a straight-line basis, within EBITDA (adjusted), will be replaced by depreciation of the right-of-use asset and notional financing costs on the lease liability. This will result 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.

In addition, the presentation of the Consolidated Cash Flow Statement will be affected. Actual lease payments, which are currently part of Operating Profit / (Loss) or Movements in Payables within Net Cash Generated from Operating Activities, will now be split into a notional repayment of principal lease liability and a notional interest payment. The presentation of these cash payments in the Consolidated Cash Flow Statement will therefore be notionally split (based on the discount rate and outstanding lease liability amounts) between Financing Activities (the notional repayment of principal lease liability) and Operating Activities (the notional interest payment). Cash flows from Operating Activities will be positively impacted and cash flows from Financing Activities will be negatively impacted by offsetting amounts of approximately £50m to £60m. 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.

Leasing (Continued)

The Group has calculated the impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below.

As at 31 December 2018, the Group had non-cancellable operating 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	(2,101)	2,293
Existing finance leases	33	-	33
Lease commitments	4,427	(2,101)	2,326
Lessor only extension options[1]	790	(596)	194
Total lease commitments	**5,217**		
Discounted at 7.0%[2]		(2,697)	
Lease liability at 1 January 2019			**2,520**
Comprising:			
Lease liability in respect of leases previously classified as operating leases			2,487
Lease liability in respect of leases previously classified as finance leases			33
			2,520

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

2. The discount rate of 7.0% is the weighted average, by lease, of the estimated incremental borrowing rates calculated for each individual lease as 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	2,336
Lease liability in respect of leases previously classified as operating leases	(2,487)
Deferred Tax Asset	29
Adjustment for prepayments, accruals and onerous lease provisions	(19)
Changes to Equity[3]	(141)

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.

Based on property leases in existence as at 1 January 2019, with a calculated weighted average discount rate of 7.0%, we estimate that 2019 reported profit before tax will be reduced by approximately £50 - £60m as a result of adopting the new rules. The operating lease expense, currently reported under IAS 17 as rent payable within EBITDA (adjusted), will be replaced by depreciation of the right-of-use asset and notional financing costs on the lease liability.

Leasing (Continued)

The Group has 5 property leases that were previously classified under IAS 17 as finance leases. For these leases the carrying amounts of the right-of-use asset and the lease liability at the date of initial application are equal to the carrying amounts of the lease asset and the lease liability immediately before that date as measured applying IAS 17. IFRS 16 is applied to such right-of-use assets and the lease liabilities from the date of initial application.

The Group generates rent receivable from sub-leases of some of its properties. Its activities as a sub-lessor are not material and the Group does not expect any changes to the way these sub-leases are reported in the financial statements. However, some additional disclosures will be required from next year.

The terms and conditions which govern the Group's corporate bonds and banking facilities are based on "frozen GAAP", the GAAP in existence at the time of issue, and are therefore not affected by the adoption of IFRS 16. IFRS 16 is also not expected to have any impact on future strategy or commercial negotiations.

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. Provisions recognised as at 31 December 2018 principally relate to onerous leases.

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.

Prepaid Room Purchases

Prepaid room purchases are where cash is received at time of room booking prior to arrival date and is recognised when customers stay.

3 ANALYSIS OF RESULTS BY GEOGRAPHICAL REGION

	Unaudited Year ended 31 December 2018 £m	Audited Year ended 31 December 2017 £m
Revenue		
UK	**680.1**	**624.0**
International	**13.2**	**13.1**
	693.3	**637.1**
EBITDA (before exceptionals)		
UK EBITDA (adjusted) (1)	**120.4**	**110.5**
Rent free adjustment	**(1.9)**	**(2.4)**
UK after rent free adjustment	**118.5**	**108.1**
International	**1.6**	**1.9**
EBITDA after rent free adjustment	**120.1**	**110.0**
Operating profit before exceptionals		
UK	**59.9**	**56.7**
International	**1.4**	**1.8**
	61.3	**58.5**
Profit before tax before exceptionals		
UK	**7.1**	**2.7**
International	**1.5**	**1.9**
	8.6	**4.6**
Exceptional items (note 6)	**(13.7)**	**(13.4)**
Profit before tax	**(5.1)**	**(8.8)**

1. EBITDA (adjusted) = Earnings before interest, taxes, depreciation and amortisation, and before rent free adjustment and exceptional items (which is consistent with our internal management reporting and statutory reporting of our main UK trading entity under FRS 102). Exceptional items have been removed as they relate to non-recurring, one-off items.

4 NET OPERATING EXPENSES (BEFORE EXCEPTIONAL ITEMS)

	Unaudited Year ended 31 December 2018 £m	Audited Year ended 31 December 2017 £m
Cost of goods sold	42.6	39.6
Employee costs	165.6	150.2
Operating expenses	166.2	151.9
Net operating expenses before rent, depreciation and amortisation	**374.4**	**341.7**
Rent payable (third party landlords) for operating leases	202.8	186.8
Rent receivable	(5.8)	(3.8)
Net external rent payable	196.9	183.0
Rent free adjustment[1]	1.9	2.4
Net rent	**198.8**	**185.4**
Net operating expenses before depreciation and amortisation	**573.2**	**527.1**
Depreciation	42.2	34.9
Amortisation	16.6	16.6
Net depreciation and amortisation	**58.8**	**51.5**
Total net operating expenses	**632.0**	**578.6**

1. 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 deferred income on our balance sheet and is recognised in our income statemement as a deduction to the actual rent expense in each period, on a straight line basis, over the full life of the lease. As a result, our IFRS rent expense does not reflect our cash payments of rent in any period. EBITDA (adjusted) in each period recognises the portion of the credit attributable to such period as if such credit were applied on a straight line basis until the next rent review, normally five years, which is the measure which is used for internal management reporting.

5 FINANCE COSTS

	Unaudited Year ended 31 December 2018 £m	Audited Year ended 31 December 2017 £m
Finance fees	1.8	1.8
Interest on bank loans	1.2	1.2
Interest on fixed and floating rate bonds	30.5	31.3
Interest on obligations under finance leases	5.2	4.9
Unwinding of discount on provisions	0.6	0.7
Finance costs before interest on investor loan and exceptional items	**39.3**	**39.9**
Interest on investor loan	14.3	14.3
Finance costs before exceptional items	**53.6**	**54.2**
Exceptional items:		
Fees in relation to restructuring of debt	1.4	5.4
Finance costs	**55.0**	**59.6**

6 EXCEPTIONAL ITEMS

Exceptional items 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 a net provision reassessment charge of £1.1m, 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.

In the year to 31 December 2017, exceptional charges of £13.4m include £8.6m of charges in respect of the costs of early redemption, legal and advisors' fees and management incentives relating to the restructuring of the Group's debt and other exceptional corporate activities, together with a charge of £3.2m relating to the relevant portion of 2016 prepaid fees on repayment of the previous floating rate bond, and a net rent provision reassessment charge of £2.9m, partially offset by other provision reassessment credits of £1.3m.

7 INTANGIBLE ASSETS

	Unaudited 31 December 2018 £m	Audited 31 December 2017 £m
Opening net book value	**380.0**	**389.4**
Additions	**6.3**	**7.5**
Movement on capital creditors	**-**	**(0.3)**
Write-down of fully depreciated assets	**-**	**(3.6)**
Amortisation	**(16.6)**	**(16.6)**
Write-back of fully depreciated assets	**-**	**3.6**
Impairment	**(4.4)**	**-**
Closing net book value	**365.3**	**380.0**

The closing net book value at 31 December 2018 comprises brand value of £145.0m, assets under construction of £3.9m, lease premiums of £206.6m and IT software of £9.8m.

The closing net book value at 31 December 2017 comprises brand value of £145.0m, assets under construction of £4.5m, lease premiums of £221.5m and IT software of £9.0m.

Lease premiums are amortised on a straight line basis over the lease period. Each hotel to which a lease premium asset is assigned is considered to be a separate cash generating unit when assessing 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 average growth rate of 3.0% (2017: 2.5%). The key assumptions are consistent with past experience and with external sources of information. The resulting cash flows are discounted back at the Group's risk adjusted pre-tax weighted average cost of capital of 9.0% (2017: 9.0%). When calculating the discount rate, the market-weighted average cost of capital for the sector was used based on a portfolio of similar hotel businesses. Reviews are performed on a site by site basis over the length of the lease. The Directors have considered the Group's financial projections and the assumptions which underpin those projections, including future growth of the budget hotel sector, brand demand and occupancy, the new hotel opening profile and development pipeline opportunities.

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

8 PROPERTY, PLANT AND EQUIPMENT

	Unaudited 31 December 2018 £m	Audited 31 December 2017 £m
Opening net book value	**132.4**	**121.5**
Additions	**52.7**	**43.1**
Movement on capital creditors	**(0.6)**	**2.7**
Write-down of fully depreciated assets	**(34.5)**	**(9.8)**
Depreciation	**(42.2)**	**(34.9)**
Write-back of fully depreciated assets	**34.5**	**9.8**
Impairment	**(2.3)**	**-**
Closing net book value	**140.0**	**132.4**

The closing net book value at 31 December 2018 comprises assets under construction of £1.4m, freehold and long leaseholds of £1.6m, finance leased land and buildings of £15.6m and fixtures and fittings of £121.4m.

The closing net book value at 31 December 2017 comprises assets under construction of £3.8m, freehold and long leaseholds of £1.7m, finance leased land and buildings of £16.0m and fixtures and fittings of £110.9m.

Freehold 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.

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 average growth rate of 3.0% (2017: 2.5%). The key assumptions are consistent with past experience and with external sources of information. The resulting cash flows are discounted back at the Group's risk adjusted pre-tax weighted average cost of capital of 9.0% (2017: 9.0%). When calculating the discount rate, the market-weighted average pre-tax cost of capital for the sector was used based on a portfolio of similar hotel businesses. Reviews are performed on a site by site basis over the length of the lease. The Directors have considered the Group's financial projections and the assumptions which underpin those projections, including future growth of the budget hotel sector, brand demand and occupancy, the new hotel opening profile and development opportunities.

9 TRADE AND OTHER RECEIVABLES

	Unaudited 31 December 2018 £m	Audited 31 December 2017 £m
Amounts due within one year:		
Trade amounts receivable		
- Gross amounts receivable	**7.1**	**6.3**
- Bad debt provision	**(0.4)**	**(0.2)**
- Net amounts receivable	**6.7**	**6.1**
Other amounts receivable	**8.4**	**6.3**
Accrued income	**1.8**	**1.3**
Prepayments	**36.7**	**35.0**
	53.6	**48.7**

10 TRADE AND OTHER PAYABLES

	Unaudited 31 December 2018 £m	Audited 31 December 2017 £m
Trade payables	**(14.8)**	**(15.7)**
Other payables	**(8.1)**	**(7.6)**
Social security and other taxation	**(14.2)**	**(10.7)**
Accruals	**(56.0)**	**(52.8)**
Deferred income	**(1.1)**	**(1.6)**
Prepaid room purchases	**(35.9)**	**(33.2)**
Capital payables	**(8.2)**	**(8.8)**
Provisions (Note 12)	**(1.7)**	**(2.1)**
Amounts falling due within one year	**(140.0)**	**(132.5)**
Amounts falling due after one year:		
Deferred income	**(15.3)**	**(10.4)**
Provisions (Note 12)	**(16.9)**	**(20.9)**
Total	**(172.2)**	**(163.8)**

11 FINANCIAL ASSETS AND LIABILITIES

	Maturity Date	Unaudited 31 December 2018 £m	Audited 31 December 2017 £m
Cash at bank and in hand		**81.8**	**95.0**
External debt redeemable:			
Fixed Rate Bond	May 2023	**(232.0)**	**(261.0)**
Floating Rate Bond	May 2023	**(195.0)**	**(165.0)**
Issue Costs		**6.2**	**7.6**
External debt		**(420.8)**	**(418.4)**
Net external debt		**(339.0)**	**(323.4)**
Investor Loan Note	January 2026	**(97.0)**	**(117.4)**
Net debt before finance leases		**(436.0)**	**(440.8)**
Finance leases		**(32.8)**	**(32.2)**
Net debt including finance leases		**(468.8)**	**(473.0)**

Senior secured notes
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, and a further £29.0m were repaid on 3 January 2018. Interest is fixed at 8.5% and is payable on a semi-annual basis.

Senior secured floating rate sterling denominated notes of £100.0m were issued on 10 May 2016 with a termination date of 11 May 2023. These were repaid on 28 April 2017 with early repayment fees of £2.1m applied. Interest was floating at three month LIBOR plus a margin of 7.5%.

New senior secured floating 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 is floating at three month LIBOR plus a margin of 4.875% and is payable on a quarterly basis.

Revolving credit facility
A sterling denominated revolving credit facility of £50.0m is available to the Group. At the date of these financial statements no drawings on this facility had been made.

Letter of credit facility
The letter of credit facility has a maximum usage of £30.0m. At 31 December 2018, the Group had utilised £14.8m.

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 2018, accrued interest for the period from 1 January 2018 to 31 December 2018 totalled £14.3m (2017: £14.3m). The investor loan note has a termination date of January 2026.

Accrued interest of £34.6m relating to the investor loan was repaid in December 2018 (2017: £35.0m).

Interest rate hedge
The interest rate hedge is against £100.0m 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 is fixed at 0.376% and the receive rate of the hedge floats to LIBOR.

At 31 December 2018, the fair value of the hedge was £0.4m (2017: £0.5m).

Swaption
On 30 June 2017, Travelodge entered into a swaption in relation to the senior secured floating rate notes.

The swaption commences on 15 May 2019 and terminates on 15 May 2021. If, on 15 May 2019, LIBOR is greater than 1.5%, Travelodge will receive a cash settlement on the difference between LIBOR and 1.5% on £100.0m to cover a portion of the scheduled quarterly payments on the floating rate notes, up to 15 May 2021.

If, on 15 May 2019, LIBOR is less than 1.5%, the product will not be activated and will expire.

At 31 December 2018, the fair value of the swaption was £0.1m (2017: £0.2m).

12 PROVISIONS

	Unaudited 31 December 2018 £m	Audited 31 December 2017 £m
At 1 January	**(23.0)**	**(23.2)**
Cash spend	**9.4**	**2.7**
Reassessment of provisions	**(1.1)**	**(1.6)**
Unwinding of discount on provisions	**(0.6)**	**(0.7)**
Foreign exchange rate movement	**-**	**(0.2)**
Transfer from accruals	**(3.3)**	**-**
At 31 December	**(18.6)**	**(23.0)**
The balance can be analysed as:		
Due in less than one year	**(1.7)**	**(2.1)**
Due in greater than one year	**(16.9)**	**(20.9)**
	(18.6)	**(23.0)**

A discount rate of 4.0% (2017: 4.0%), being the pre-tax risk free rate adjusted for property risk, is used to calculate the net present value of the provisions.

Provisions of £18.6m can be analysed as: onerous lease provisions of £2.6m relating to future rent and rates liabilities on sub leased historic restaurant units, £9.4m relating to eleven UK hotels and two Spanish hotels where it is considered improbable that trading profits will be generated within a period of 7 years and £6.6m 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 12 years and have been discounted at a pre-tax risk free rate of 4.0% (2017: 4.0%).

13 NOTE TO THE CASH FLOW STATEMENT

	Unaudited 31 December 2018 £m	Audited 31 December 2017 £m
Operating profit	**49.0**	**50.5**
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	**42.2**	**35.0**
Amortisation of other intangible assets	**16.6**	**16.5**
Impairment of fixed assets	**6.7**	**-**
	65.5	**51.5**
Operating cash flows before movements in working capital	**114.5**	**102.0**
Movement in inventory	**(0.1)**	**0.4**
Movement in receivables	**(4.7)**	**(1.6)**
Movement in payables	**12.4**	**13.9**
Movement in provisions	**(5.0)**	**(1.1)**
Total working capital movement (1)	**2.6**	**11.6**
Cash flows from operating activities	**117.1**	**113.6**

1. Working capital movement of £2.6m (2017: £11.6m) is after exceptional outflows of £4.2m (2017: inflows of £1.0m) and before rent free adjustment of £1.9m (2017: £2.4m). Working capital movement in "Memorandum - Analysis of free cash flow" on page 22 is stated before exceptional movements and before rent free adjustment.