

**TVL FINANCE PLC**

**FY 2016 – YEAR ENDED 31 DECEMBER 2016**

**REPORT TO NOTEHOLDERS**

**£290,000,000 8.5% SENIOR SECURED NOTES DUE 2023**

**£100,000,000 SENIOR SECURED FLOATING RATE NOTES DUE 2023**

**(the "Notes")**

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Capitalised terms not otherwise defined in this Report shall have the meanings assigned to such terms in the offering memorandum of TVL Finance PLC relating to the Notes dated 29 April 2016 (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 financial statements.

The summary financial information provided has been derived from our records for the calendar year accounting period from 1 January 2016 to 31 December 2016 (prior year from 1 January 2015 to 31 December 2015), 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 "Consolidated EBITDA", which represents earnings before interest, tax, depreciation and amortisation as well as exceptional items as defined by IFRS.

Management believe that Consolidated EBITDA is meaningful for investors because it provides an analysis of our operating results, profitability and ability to service debt and because Consolidated EBITDA 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 2016 (Unaudited)

## **Good revenue growth, outperformance and strong growth in new openings**

### **Financial Highlights – 2016**

- Total revenue **up 6.8%** to £597.8m (2015: £559.6m)
- RevPAR<sup>(1)</sup> **up 2.5%** to £39.34 (2015: £38.38)
- RevPAR growth **1.2pts ahead** of competitive segment<sup>(2)</sup>
- Average room rate<sup>(1)</sup> up 3.1% to £51.70 (2015: £50.13)
- Occupancy<sup>(1)</sup> down 0.5 percentage points to 76.1% (2015: 76.6%)
- YTD EBITDA **up £5.0m** to £110.1m (2015: £105.1m)
- Cash of **£73.9m** at 31 December 2016

### **Operational Highlights**

- Strong performance from 'Travelodgical' business-focused advertising campaign
- Continued growth from business customers, with encouraging results from new business account programme and business website upgrade
- Food & beverage sales up 14% driven by the upgraded food & beverage offer
- Strong development momentum - 19 new hotels opened in the year
- Estate now stands at 543 hotels and 40,847 rooms at 31 December 2016

Peter Gowers, Travelodge Chief Executive commented:

"2016 was another good year for Travelodge. We saw strong sales growth, outperformance against our competitive segment and excellent growth in new hotel openings. The economic outlook remains uncertain in light of the Brexit decision and we continue to face increased cost pressures from the National Living Wage, business rates and other regulated cost increases. However, our growing brand reputation and strong development pipeline position us well to benefit from the opportunities presented by businesses looking for greater value in travel and rising demand for value hotels across the UK."

(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.

## Summary

We continue to make good progress on our strategy to raise quality levels, increase our share of the business market and deliver excellent value to our customers. In 2016 Travelodge delivered good revenue growth and market outperformance alongside strong growth in new openings. Revenue growth was principally driven by good like for like RevPar growth of 2.5%, the contribution from new hotels, improved conversion rates from our upgraded website, continued growth from business customer sales and increased food & beverage sales.

EBITDA was ahead of last year's record results, with higher sales, cost efficiencies and lower above the line marketing costs offsetting cost increases, which include a number of regulated cost increases such as the introduction of the National Living Wage and rent re-sets in connection with our restructuring.

During 2016 we opened 19 new hotels, including sites in London, Birmingham, Manchester and Glasgow in line with our target for 2016.

## Recent Trading and Outlook

As indicated in previous quarterly updates, the first quarter is traditionally the hotel industry's lowest seasonal demand period and our smallest quarter in financial terms.

During the first six weeks of the year, overall UK hotel market growth has been largely driven by the luxury and upscale sectors and the strong performance of London, against weak comparables. The midscale and economy segment, which does not tend to strongly benefit from inbound Asian and U.S. tourists or from large volumes of group demand, has seen more modest growth.

It is still early in the year, and we remain relatively cautious about the immediate outlook, in the context of the prevailing economic uncertainty relating to Brexit and the expected cost pressures, including those from the National Living Wage, the increase in business rates and other regulated cost increases. However, we remain well positioned to benefit from demand from value conscious consumers and our strong and growing development pipeline.

## Financial Performance

### *Growing Sales and Outperforming the Market*

#### For the year ended 31 December 2016:

UK like-for-like RevPAR was up 2.5% to £39.34, outperforming the growth rate of the STR Midscale and Economy Sector, which was up 1.4% for the same period.

More widely, the growth rate of the UK hotel market was slower than the prior year, with a weaker London market offset by better regional performance. Against this backdrop, we continued to make progress on our strategy and this resulted in further sales growth and outperformance.

We continue to use effective revenue management to optimise the balance between occupancy and rate growth. As a result UK like-for-like occupancy was down slightly, by 0.5 percentage points, to 76.1% (2015: 76.6%). However, UK like-for-like average

room rate was up 3.1% to £51.70 (2015: £50.13), principally driven by continued growth from business customers and improved conversion rates from our upgraded website, supported by effective yield management.

These positive like-for-like sales results, together with a strong contribution from our recently opened and maturing new hotels, resulted in total revenue growth of 6.8% for the year to £597.8m.

In 2016, EBITDA grew by £5.0m to £110.1m (2015: £105.1m). The increase in hotel rents, where strong trading triggered a rent re-set in line with the arrangements made under our 2012 restructuring, together with the impact of the National Living Wage were more than offset by the total revenue increase noted above and lower marketing costs. Other operating costs remained tightly controlled.

The business continues to generate strong operating cashflow, with a closing cash balance of £73.9m at the end of the year. Following our refinancing in the second quarter we have long-term facilities in place including the benefit of an undrawn £50m RCF facility.

For the 13 weeks to the 31 December 2016:

UK like-for-like RevPAR was up 1.9% to £38.11, in line with the STR Midscale and Economy Sector, a good performance against tough comparables benefiting from the Rugby World Cup in 2015. UK like-for-like occupancy was up slightly by 0.1 percentage points to 74.3%, with UK like-for-like average room rate up 1.7% to £51.28.

The positive like-for-like sales results, together with the contribution from our recently opened and maturing new hotels, resulted in total revenues up 7.4% for the quarter to £148.9m.

In the fourth quarter, EBITDA grew by £1.3m to £22.5m (2015: £21.2m). The impact of the National Living Wage was mitigated by lower above the line marketing costs and tight control of other operating costs.

## **Operational Update**

### *Investing in Quality*

Following our modernisation programme we have a well invested estate. We expect to continue to invest to maintain the quality of our estate and we have commenced our standard refit cycle in 2017 with an aim to refit the entire estate over a c. 7 year period, together with interim works as appropriate in the heavier use hotels, with flexibility to adjust the phasing of spend depending on market conditions.

We also upgraded our desktop and mobile websites to improve the booking experience and our new breakfast offer has led to record levels of food and beverage sales with annual growth of 14%.

We have continued to invest in upgrading the capabilities of our teams and leaders allowing colleagues to gain a nationally recognised qualification in hospitality. 2016 was our first year with a fully insourced cleaning team, which has improved stability. During 2016 we also took the decision to pay the National Living Wage to all employees, not just those over 25.

### *Best for Business*

During 2016 we strengthened our offer for business customers, launching Travelodge Business, a new account service for small and medium size businesses. This includes access to customised billing and expense management tools via our website, special rates and our business account card, which offers interest free credit provided by a third party credit card partner. Since the launch we have continued to see an increase in sign-ups and activations of business customers.

### *Development*

We continue to broaden our network and make good progress on our development targets. In the fourth quarter we opened hotels in London Finchley, Stockport, Andover, Kings Lynn and Thetford bringing our 2016 new hotel openings to 19.

We have a strong pipeline and expect to open a similar number per year on average over the next three years, with precise timing dependent on market conditions and planning approvals. While the precise timing of openings may vary depending on construction schedules, we currently expect to open 15 hotels in 2017 and approximately 20-25 in the following year, with a number of these early in 2018.

## **About Travelodge**

Founded in 1985, Travelodge is one of the UK's leading hotel brands. There were 543 Travelodge hotels and 40,847 rooms in the UK, Spain and Ireland as at 31 December 2016. Travelodge welcomes approximately 18 million customers every year and almost 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 2016

	Year ended 31 Dec 2016 £m	Year ended 31 Dec 2015 £m	Var £m	Var %
<u>Revenue by geographical region</u>				
<b>Revenue</b>	<b>597.8</b>	<b>559.6</b>	<b>38.2</b>	<b>6.8%</b>
Revenue UK	587.7	552.0	35.7	6.5%
Revenue International	10.1	7.6	2.5	32.9%
<u>Key income statement items</u>				
<b>Revenue</b>	<b>597.8</b>	<b>559.6</b>	<b>38.2</b>	<b>6.8%</b>
Operating expenses	(316.0)	(298.0)	(18.0)	(6.0)%
<i>Of which cost of goods sold</i>	(37.5)	(35.8)	(1.7)	(4.7)%
<i>Of which employee costs</i>	(136.2)	(118.7)	(17.5)	(14.7)%
<i>Of which other operating expenses</i>	(142.3)	(143.5)	1.2	0.8%
Net external rent payable	(171.7)	(156.5)	(15.2)	(9.7)%
<b>EBITDA</b>	<b>110.1</b>	<b>105.1</b>	<b>5.0</b>	<b>4.8%</b>
IFRS rent charge <sup>(1)</sup>	(3.4)	(4.6)	1.2	26.1%
Depreciation	(29.9)	(22.4)	(7.5)	(33.5)%
Amortisation	(15.8)	(15.2)	(0.6)	(3.9)%
<b>Operating profit / (loss) (before exceptional items)</b>	<b>61.0</b>	<b>62.9</b>	<b>(1.9)</b>	<b>(3.0)%</b>
Finance costs	(53.3)	(49.5)	(3.8)	(7.7)%
Finance income	1.1	0.5	0.6	-
Income tax	(0.9)	(3.8)	2.9	76.3%
<b>Profit / (loss) for the period (before exceptional items)</b>	<b>7.9</b>	<b>10.1</b>	<b>(2.2)</b>	<b>(21.8)%</b>
Exceptional items	(10.5)	(8.0)	(2.5)	(30.6)%
<b>(Loss) / Profit for the period</b>	<b>(2.6)</b>	<b>2.1</b>	<b>(4.7)</b>	<b>-</b>

(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 an asset 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.

### Revenue

Revenue increased by £38.2m, or 6.8%, from £559.6m for the year ended 31 December 2015 to £597.8m for the year ended 31 December 2016. This increase was primarily due to like-for-like UK RevPAR growth of 2.5%, the annualisation and maturity of the 12 new hotels added in the 2015 and the opening of 19 new hotels in the year. Like-for-like growth outperformed the MS&E segment growth of 1.4% for the period benefitting from improved conversion rates from our upgraded website and continued growth from business customer sales, supported by effective yield management.



## **Operating expenses**

Operating expenses increased by £18.0m, or 6.0%, from £298.0m for the year ended 31 December 2015 to £316.0m for the year ended 31 December 2016. Cost increases were mainly due to increased employee costs.

Employee cost increases were largely driven by the additional staff employed in our new hotels, wage inflation (including the impact of the National Living Wage), together with investment in the sales and marketing team to increase our share of business customers and our online presence. Employee costs were also impacted by insourcing our previously outsourced cleaning teams, where these costs would have previously been included in other operating costs.

Other operating expenses include marketing costs which were lower year on year owing to changes in our marketing mix and tactical investments.

## **Net rent payable**

Net external rent payable increased by £15.2m, or 9.7%, from £156.5m for the year ended 31 December 2015 to £171.7m for the year ended 31 December 2016. This increase was primarily due to 19 new hotel openings during the period, the annualisation of 12 new hotels in 2015, upwards only rent reviews predominantly linked to RPI and the CVA category 2 rent review with an impact of £2.6m for the full year.

## **Depreciation / amortisation**

Depreciation / amortisation increased by £8.1m from £37.6m for the year ended 31 December 2015 to £45.7m for the year ended 31 December 2016. This increase was primarily due to the higher asset values in the period resulting from the completion of the modernisation program in December 2015.

## **Finance costs**

Finance costs increased by £3.8m from £49.5m for year ended 31 December 2015 to £53.3m for the year ended 31 December 2016, of this £15m represents non-cash paid interest on the investor loan note. The increase was primarily due to the higher bond costs since issue in May resulting from an increase in the level of debt and interest rate.

## **Finance income**

Finance income increased by £0.6m from £0.5m for the year ended 31 December 2015 to £1.1m for the year ended 31 December 2016. The increase was primarily due to additional interest in respect of a loan to our previous Irish franchisee partner which was settled during quarter 4.

## **Taxation**

Income tax is recognised based on management's best estimate of the income tax rate expected for the financial year. Income tax decreased by £2.9m, from a charge of £3.8m for the year ended 31 December 2015 to a charge of £0.9m for the year ended 31 December 2016. This movement is non-cash and entirely relates to changes in deferred tax on intangible assets, tax losses and differences between accounting depreciation and capital allowances.

## Exceptional items

In the financial year to 31 December 2016, exceptional items of £10.5m consist mainly of £6.0m for the impairment of fixed assets in Aberdeen due to changes in local market demand, financing costs relating to restructuring the group's debt of £4.2m and a net provision reassessment of £0.3m.

In the financial year to 31 December 2015, exceptional items of £8.0m consist of a £1.4m charge relating to the increase in the CVA Fund due to 2015 performance, charges of £1.9m for a detailed property review, £1.1m for financial due diligence, £4.1m for other costs relating to advisory fees in respect of corporate strategy including other operating matters, and a net credit of £0.5m relating to reassessment of various other provisions of the Group.

## Cash flow

As at 31 December 2016, we had cash of £73.9m, a decrease of £3.0m compared to £76.9m as at 31 December 2015. Financing cash outflows during the year of £68.8m relate to bank interest payments of £38.8m, repayment of investor loan of £20.0m, first quarter repayments of term debt of £12.9m, finance issue transaction costs of £11.1m, finance lease interest paid of £4.5m and finance fees paid of £0.2m partially offset by net refinancing proceeds of £18.7m. Investing cash outflows of £36.3m relate to the purchase of intangible and tangible fixed assets of £37.4m offset by interest received of £1.1m. The year-end cash balance is beneficially impacted by the timing of some rent and creditor payments which we made shortly after year-end.

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.

	<b>Year ended 31 Dec 2016</b>	<b>Year ended 31 Dec 2015</b>	Var	Var
	£m	£m	£m	%
Net cash generated from operating activities	102.1	118.1	(16.0)	(13.5)%
Net cash used in investing activities	(36.3)	(50.7)	14.4	28.4%
Net cash used in financing activities	(68.8)	(29.4)	(39.4)	-
<b>Net (decrease) / increase in aggregate cash and cash equivalents</b>	<b>(3.0)</b>	<b>38.0</b>	<b>(41.0)</b>	<b>-</b>
Cash and cash equivalents at beginning of period	76.9	38.9	38.0	97.7%
<b>Cash and cash equivalents at the end of the period</b>	<b>73.9</b>	<b>76.9</b>	<b>(3.0)</b>	<b>(3.9)%</b>

### **Net cash generated from operating activities**

Net cash generated from operating activities decreased by £16.0m, or 13.5%, from £118.1m for the year ended 31 December 2015 to £102.1m for the year ended 31 December 2016. This was due to a decrease of £25.7m in working capital driven predominantly by timing differences on rent payments and other payments to creditors, and additional exceptional items, including the CVA fund and costs associated with the strategic review and debt restructuring, partially offset by higher EBITDA after exceptional items of £9.7m.

### **Net cash used in investing activities**

Net cash used in investing activities decreased by £14.4m, or 28.4%, from £50.7m for the year to 31 December 2015 to £36.3m for the year to 31 December 2016 primarily due to the completion of the modernisation program in December 2015.

### **Net cash used in financing activities**

Net cash used in financing activities increased by £39.4m from £29.4m for the year to 31 December 2015 to £68.8m for the year to 31 December 2016 primarily due to increased bank and bond interest paid of £24.0m (which was impacted by the timing of the move to cash paid interest in 2015), net refinancing cash flows of £12.4m and increased repayment of certain term debt of £2.9m, together with finance fees and finance lease interest.

### **Capital expenditure**

Our capital expenditure in the year ended 31 December 2016 has been primarily made in relation to on-going maintenance, as well as investment in IT systems and amounts relating to development of our pipeline. The year on year decrease is mainly due to spend on our modernisation program last year which completed in December 2015. We have commenced our standard refit cycle in 2017, and expect to refit the entire estate over a c.7 year period, with interim works as appropriate in the heavier use hotels.

### **Working capital requirements**

Inventory primarily includes food and beverage products sold through our bar cafes. Our 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. Our liabilities to trade and other creditors include prepaid room purchases from customers who have yet to stay. Our other current liabilities include normal trade creditors, accrued wages and salaries, other current debts, accrued interest and taxes.

	<b>Year ended 31 Dec 2016 £m</b>	<b>Year ended 31 Dec 2015 £m</b>	Var £m	Var %
Reduction in inventory	-	(0.1)	0.1	-
(Increase) / Reduction in receivables	(3.5)	7.7	(11.2)	-
Increase in payables	14.6	17.3	(2.7)	(15.6)%
<b>Total working capital movement (before exceptional items)</b>	<b>11.1</b>	<b>24.9</b>	<b>(13.8)</b>	<b>(55.4)%</b>
Exceptional items	(11.2)	0.7	(11.9)	-
<b>Total working capital movement</b>	<b>(0.1)</b>	<b>25.6</b>	<b>(25.7)</b>	<b>-</b>

Our working capital outflow of £(0.1)m in the year ended 31 December 2016 compared to an inflow of £25.6m in the year ended 31 December 2015 is impacted mainly by exceptional items, including the CVA fund and costs associated with the strategic review and debt restructuring and by the timing of creditor payments and rent payments over the year ends.

## OPERATING AND FINANCIAL REVIEW

Results of operations for the 13 weeks ended 31 December 2016 (Q4)

	Quarter from 29 Sep 2016 to 31 Dec 2016 £m	Quarter from 1 Oct 2015 to 31 Dec 2015 £m	Var £m	Var %
<u>Revenue by geographical region</u>				
<b>Revenue</b>	<b>148.9</b>	<b>138.6</b>	<b>10.3</b>	<b>7.4%</b>
Revenue UK	146.2	136.7	9.5	6.9%
Revenue International	2.7	1.9	0.8	42.1%
<u>Key income statement items</u>				
<b>Revenue</b>	<b>148.9</b>	<b>138.6</b>	<b>10.3</b>	<b>7.4%</b>
Operating expenses	(82.3)	(76.5)	(5.8)	(7.6)%
<i>Of which cost of goods sold</i>	(9.4)	(8.9)	(0.5)	(5.6)%
<i>Of which employee costs</i>	(36.0)	(33.9)	(2.1)	(6.2)%
<i>Of which other operating expenses</i>	(36.9)	(33.7)	(3.2)	(9.5)%
Net external rent payable	(44.1)	(40.9)	(3.2)	(7.8)%
<b>EBITDA</b>	<b>22.5</b>	<b>21.2</b>	<b>1.3</b>	<b>6.1%</b>
IFRS rent charge <sup>(1)</sup>	(0.7)	(1.0)	0.3	30.0%
Depreciation	(7.7)	(6.2)	(1.5)	(24.2)%
Amortisation	(4.0)	(3.9)	(0.1)	(2.6)%
<b>Operating profit (before exceptional items)</b>	<b>10.1</b>	<b>10.1</b>	<b>(0.0)</b>	<b>(0.0)%</b>
Finance costs	(14.2)	(12.3)	(1.9)	(15.4)%
Finance income	0.7	0.1	0.6	-
Income tax	2.3	2.6	(0.3)	11.5%
<b>(Loss) / Profit for the period (before exceptional items)</b>	<b>(1.1)</b>	<b>0.5</b>	<b>(1.6)</b>	<b>-</b>
Exceptional items	(7.2)	(1.8)	(5.4)	-
<b>(Loss) / Profit for the period</b>	<b>(8.3)</b>	<b>(1.3)</b>	<b>(7.0)</b>	<b>-</b>

(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 an asset 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.

### Revenue

Revenue increased by £10.3m, or 7.4%, from £138.6m for the period from 1 October 2015 to 31 December 2015 to £148.9m for the period from 29 September 2016 to 31 December 2016. This increase was primarily due to the annualisation and maturity of the 12 new hotels added in the 2015 and the opening of 19 new hotels in the year, together with like-for-like UK RevPAR growth of 1.9% which was in line with the MS&E segment growth for the quarter.

## **Operating expenses**

Operating expenses increased by £5.8m, or 7.6%, from £76.5m for the period from 1 October 2015 to 31 December 2015 to £82.3m for the period from 29 September 2016 to 31 December 2016.

Employee cost increases were largely driven by the additional staff employed in our new hotels, wage inflation (including the impact of the National Living Wage), together with investment in the sales and marketing team to increase our share of business customers and our online presence.

Other operating expenses have increased mainly due to new hotels, revenue related costs and inflationary increases, and include marketing costs which were lower year on year owing to changes in our marketing mix and tactical investments.

## **Net rent payable**

Net external rent payable increased by £3.2m, or 7.8%, from £40.9m for the period from 1 October 2015 to 31 December 2015 to £44.1m for the period from 29 September 2016 to 31 December 2016. This increase was primarily due to 19 new hotel openings during 2016, the annualisation of new hotels in 2015 and upwards only rent reviews predominantly linked to RPI.

## **Depreciation / amortisation**

Depreciation / amortisation increased by £1.6m from £10.1m for the period from 1 October 2015 to 31 December 2015 to £11.7m for the period from 29 September 2016 to 31 December 2016. This increase was primarily due to the higher asset values in the period resulting from the completion of the modernisation program in December 2015.

## **Finance costs**

Finance costs increased by £1.9m from £12.3m for the period from 1 October 2015 to 31 December 2015 to £14.2m for the period from 29 September 2016 to 31 December 2016. The increase was primarily due to the higher bond costs since issue in May 2016 resulting from an increase in the level of debt and interest rate.

## **Finance income**

Finance income increased by £0.6m from £0.1m for the period from 1 October 2015 to 31 December 2015 to £0.7m for the period from 29 September 2016 to 31 December 2016. The increase was primarily due to additional interest in respect of a loan [to our previous Irish franchisee partner which was settled during the 13 weeks.

## **Taxation**

Income tax is recognised based on management's best estimate of the income tax rate expected for the financial year. Income tax decreased by £0.3m, from a charge of £2.6m from 1 October 2015 to 31 December 2015 to a charge of £2.3m for the period from 29 September 2016 to 31 December 2016. This movement is non-cash and entirely relates to changes in deferred tax on intangible assets, tax losses and differences between accounting depreciation and capital allowances.

**Exceptional items**

Exceptional items in the quarter relate mainly to the impairment of fixed assets in Aberdeen due to changes in local market demand.

## **RISK FACTORS**

Since April 29, 2016, the date on which TVL Finance plc published its Offering Memorandum for the Notes, the UK electorate has voted in favour of exiting the EU in a referendum held on June 23, 2016. Noteholders are reminded that investing in the Notes involves substantial risks and Noteholders should refer to the “*Risk Factors*” section of the Offering Memorandum for a description of the risks that they should consider when making investment decisions about the Notes. In particular, Noteholders should refer to the risk factor under the heading “*Risk Factors—Risks Relating to Our Business and Industry—A vote by the UK electorate in favour of a UK exit from the EU in a forthcoming in-or-out referendum could adversely impact our business, results of operations and financial condition*” which, in light of the referendum result, should now be read as follows:

***The UK electorate voted in favour of a UK exit from the EU in a referendum held on June 23, 2016, the consequences of which could adversely impact our business, results of operations and financial condition.***

The UK Government held an in-or-out referendum on the United Kingdom’s membership of the European Union on June 23, 2016 in which the UK electorate voted in favour of the United Kingdom exiting from the EU (“Brexit”). A process of negotiation will now commence between the UK government and the EU to determine the future terms of the United Kingdom’s relationship with the European Union. We are headquartered and tax domiciled in the United Kingdom and our business, results of operations and financial condition could be materially adversely affected by Brexit.

Depending on the terms of Brexit, the United Kingdom could lose access to the single EU market and to the global trade deals negotiated by the European Union on behalf of its members. Such a decline in trade could affect the attractiveness of the United Kingdom as a global investment centre and, as a result, could have a detrimental impact on UK growth. Uncertainty around the timing and terms of Brexit following the referendum could also have a negative impact on the UK economy. We could be adversely affected by reduced growth in the UK economy and greater volatility in the Pound. Changes to UK border and immigration policy could likewise occur as a result of Brexit, affecting the number of travellers to the United Kingdom and the freedom of employers to recruit staff from outside the United Kingdom. While Travelodge is predominantly a domestic business, it is possible that any of the foregoing factors could have a material adverse effect on our business, results of operations or financial condition.



**Registered number: 08170768**

**TVL FINANCE PLC**

**UNAUDITED**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 December 2016**

**TVL FINANCE PLC**  
**CONDENSED CONSOLIDATED PROFIT AND LOSS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	Unaudited Year ended 31 Dec 2016			Audited Year ended 31 Dec 2015		
	BEI <sup>(2)</sup>	EI <sup>(2)</sup>	AEI <sup>(2)</sup>	BEI <sup>(2)</sup>	EI <sup>(2)</sup>	AEI <sup>(2)</sup>
	£m	£m	£m	£m	£m	£m
<b>Revenue</b>	597.8	-	<b>597.8</b>	559.6	-	<b>559.6</b>
Operating Expenses	(316.0)	(4.2)	<b>(320.2)</b>	(298.0)	(8.4)	<b>(306.4)</b>
Rent	(175.1)	(0.3)	<b>(175.4)</b>	(161.1)	0.4	<b>(160.7)</b>
<b>EBITDA<sup>(1)</sup></b>	<b>106.7</b>	<b>(4.5)</b>	<b>102.2</b>	<b>100.5</b>	<b>(8.0)</b>	<b>92.5</b>
Depreciation/Amortisation	(45.7)	(6.0)	<b>(51.7)</b>	(37.6)	-	<b>(37.6)</b>
<b>Operating Profit / (Loss)</b>	<b>61.0</b>	<b>(10.5)</b>	<b>50.5</b>	<b>62.9</b>	<b>(8.0)</b>	<b>54.9</b>
Finance Costs	(53.3)	-	<b>(53.3)</b>	(49.5)	-	<b>(49.5)</b>
Finance Income	1.1	-	<b>1.1</b>	0.5	-	<b>0.5</b>
<b>Profit / (loss) before Tax</b>	<b>8.8</b>	<b>(10.5)</b>	<b>(1.7)</b>	<b>13.9</b>	<b>(8.0)</b>	<b>5.9</b>
Income Tax	(0.9)	-	<b>(0.9)</b>	(3.8)	-	<b>(3.8)</b>
<b>Profit / (loss) for the period</b>	<b>7.9</b>	<b>(10.5)</b>	<b>(2.6)</b>	<b>10.1</b>	<b>(8.0)</b>	<b>2.1</b>

**Memorandum - EBITDA**

	Year ended 31 Dec 2016 £m	Year ended 31 Dec 2015 £m
<b>EBITDA before IFRS rent charge</b>	<b>110.1</b>	<b>105.1</b>
IFRS rent charge	(3.4)	(4.6)
EBITDA pre exceptional items	106.7	100.5
Exceptional items	(4.5)	(8.0)
<b>EBITDA after exceptional items</b>	<b>102.2</b>	<b>92.5</b>

**TVL FINANCE PLC**  
**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	Unaudited Year ended 31 Dec 2016 £m	Audited Year ended 31 Dec 2015 £m
<u>(Loss) / Profit for the year recognised directly in the income statement</u>	<u>(2.6)</u>	<u>2.1</u>
Movement on fair value of cash flow hedges	0.6	-
Currency translation differences	(0.6)	0.2
<b>Net (loss) / income recognised directly in equity</b>	<b>-</b>	<b>0.2</b>
<b>Total comprehensive (loss) / income for the period</b>	<b>(2.6)</b>	<b>2.3</b>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	Share Capital £m	Foreign Exchange Reserve £m	Hedge Reserve £m	Accumulated Losses £m	Total deficit £m
<b>1 January 2016</b>	-	<b>0.4</b>	-	<b>(76.2)</b>	<b>(75.8)</b>
<b>Comprehensive loss</b>					
Loss for the period	-	-	-	(2.6)	(2.6)
<b>Other comprehensive (loss) / income</b>					
Movement in fair value of hedging derivatives	-	-	0.6	-	<b>0.6</b>
Currency translation differences	-	(0.6)	-	-	<b>(0.6)</b>
<b>Total comprehensive (loss) / income</b>	<b>-</b>	<b>(0.6)</b>	<b>0.6</b>	<b>(2.6)</b>	<b>(2.6)</b>
<b>31 December 2016</b>	<b>-</b>	<b>(0.2)</b>	<b>0.6</b>	<b>(78.8)</b>	<b>(78.4)</b>

**FOR THE YEAR ENDED 31 DECEMBER 2015**

	Share Capital £m	Foreign Exchange Reserve £m	Hedge Reserve £m	Accumulated Losses £m	Total deficit £m
<b>1 January 2015</b>	-	<b>0.2</b>	-	<b>(78.3)</b>	<b>(78.1)</b>
<b>Comprehensive income</b>					
Profit for the period	-	-	-	2.1	<b>2.1</b>
<b>Other comprehensive income</b>					
Currency translation differences	-	0.2	-	-	<b>0.2</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>0.2</b>	<b>-</b>	<b>2.1</b>	<b>2.3</b>
<b>31 December 2015</b>	<b>-</b>	<b>0.4</b>	<b>-</b>	<b>(76.2)</b>	<b>(75.8)</b>

**TVL FINANCE PLC**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
**AS AT 31 DECEMBER 2016**

	Unaudited 31 Dec 2016 £m	Audited 31 Dec 2015 £m
<b>NON CURRENT ASSETS</b>		
Intangible assets	389.6	402.5
Property, plant and equipment	121.3	123.9
Financial derivative asset	0.6	-
Deferred tax asset	52.2	59.4
	<u>563.7</u>	<u>585.8</u>
<b>CURRENT ASSETS</b>		
Inventory	1.4	1.4
Trade and other receivables	47.1	43.3
Cash and cash equivalents	73.9	76.9
	<u>122.4</u>	<u>121.6</u>
<b>TOTAL ASSETS</b>	<u>686.1</u>	<u>707.4</u>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	(115.5)	(116.5)
	<u>(115.5)</u>	<u>(116.5)</u>
<b>NON-CURRENT LIABILITIES</b>		
Bank loans	-	(384.3)
Bond related debt	(379.9)	-
Investor loan	(138.1)	(143.1)
Obligations under finance leases	(31.8)	(31.1)
Deferred tax liability	(66.2)	(72.5)
Deferred income	(9.8)	(7.1)
Provisions	(23.2)	(28.6)
	<u>(649.0)</u>	<u>(666.7)</u>
<b>TOTAL LIABILITIES</b>	<u>(764.5)</u>	<u>(783.2)</u>
<b>NET LIABILITIES</b>	<u>(78.4)</u>	<u>(75.8)</u>
<b>EQUITY</b>		
Share capital	-	-
Foreign exchange reserve	(0.2)	0.4
Hedge reserve	0.6	-
Accumulated losses	(78.8)	(76.2)
<b>TOTAL DEFICIT</b>	<u>(78.4)</u>	<u>(75.8)</u>

<b>Memorandum - Analysis of net funding</b>	<b>£m</b>	<b>£m</b>
Cash at bank	73.9	76.9
External debt redeemable :		
Fixed Rate Bond	(290.0)	-
Floating Rate Bond	(100.0)	-
Issue costs	10.1	-
Senior 1st Lien	-	(335.9)
Senior 2nd Lien	-	(35.5)
Flare	-	(12.9)
<b>Gross external debt</b>	<u>(379.9)</u>	<u>(384.3)</u>
<b>Net external debt</b>	<b>(306.0)</b>	<b>(307.4)</b>
Investor Loan	(138.1)	(143.1)
Finance leases	(31.8)	(31.1)
<b>Net Funding</b>	<u>(475.9)</u>	<u>(481.6)</u>

**TVL FINANCE PLC**  
**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	Unaudited Year ended 31 Dec 2016 £m	Audited Year ended 31 Dec 2015 £m
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>	<b>102.1</b>	<b>118.1</b>
<b>INVESTING ACTIVITIES</b>		
Interest received	1.1	0.4
Purchases of property, plant and equipment and other intangible assets	(37.4)	(51.1)
<b>Net cash used in investing activities</b>	<b>(36.3)</b>	<b>(50.7)</b>
<b>FINANCING ACTIVITIES</b>		
Finance fees paid	(0.2)	(0.4)
Interest paid	(38.8)	(14.8)
Interest element of finance lease rental payments	(4.5)	(4.2)
Repayment of flare facility	(12.9)	(10.0)
Net refinancing proceeds	18.7	-
Finance issue transaction costs	(11.1)	-
Repayment of investor loan	(20.0)	-
<b>Net cash from financing activities</b>	<b>(68.8)</b>	<b>(29.4)</b>
<b>Net increase in aggregate cash and cash equivalents</b>	<b>(3.0)</b>	<b>38.0</b>
Cash and cash equivalents at beginning of the year	76.9	38.9
<b>Cash and cash equivalents at end of the period</b>	<b>73.9</b>	<b>76.9</b>

	Unaudited Year ended 31 Dec 2016 £m	Audited Year ended 31 Dec 2015 £m
<b>Memorandum - Analysis of free cash flow<sup>1</sup></b>		
EBITDA before exceptional items and IFRS rent charge	110.1	105.1
Working capital	7.7	20.3
<b>Net cash flows from operating activities before exceptionals</b>	<b>117.8</b>	<b>125.4</b>
Capital expenditure	(37.4)	(51.1)
<b>Free cash flow generated for the year</b>	<b>80.4</b>	<b>74.3</b>
<b>Non-trading cash flow</b>		
Interest costs - bank interest paid	(22.0)	(14.8)
- bond interest paid	(16.8)	-
- finance fees paid	(0.2)	(0.4)
Interest income	1.1	0.4
Interest element of finance lease rental payments	(4.5)	(4.2)
Repayment of flare facility	(12.9)	(10.0)
Cash spend on provisions and exceptional items <sup>2</sup>	(26.8)	(7.3)
<b>Non-trading cashflow</b>	<b>(82.1)</b>	<b>(36.3)</b>
<b>Cash generated</b>	<b>(1.7)</b>	<b>38.0</b>
<b>Opening Cash</b>	<b>76.9</b>	<b>38.9</b>
Movement in cash	(1.7)	38.0
Net refinancing proceeds	18.7	-
Repayment of investor loan	(20.0)	-
<b>Closing Cash</b>	<b>73.9</b>	<b>76.9</b>
<b>Opening net external debt</b>	<b>(307.4)</b>	<b>(355.4)</b>
Net (decrease) / increase in aggregate cash	(3.0)	38.0
Repayment of flare facility	12.9	10.0
Net refinancing	(7.6)	-
Amortised bond transaction costs	(0.9)	-
<b>Closing net external debt</b>	<b>(306.0)</b>	<b>(307.4)</b>

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

**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	117.8	125.4
Cash spend on exceptional items through profit and loss <sup>2</sup>	(4.5)	(8.0)
Cash spend on exceptional items through working capital <sup>2</sup>	(11.2)	0.7
<b>Net cash generated from operating activities</b>	<b>102.1</b>	<b>118.1</b>

2. In 2016, cash spend on provisions and exceptional items of £26.8m includes costs of refinancing the Travelodge group of £15.3m, a payment in relation to the settlement of the CVA entered into in 2012 of £3.9m and other costs of £7.6m. This spend can be further broken down as through profit and loss £4.5m, through working capital £11.2m and capitalised into debt £11.1m.

In 2015, cash spend on provisions and exceptional items of £7.3m includes £3.3m on a detailed property review, financial due diligence, and advisory fees in respect of corporate strategy, and £4.0m of other costs. This spend can be further broken down as through profit and loss £8.0m and through working capital £(0.7m).

## **TVL FINANCE PLC NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

### **1 General information**

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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**

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#### **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 2016. Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. 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.

**TVL FINANCE PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**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.

**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.

**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.

**TVL FINANCE PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**Derivative financial instruments and hedge accounting**

The Group's activities expose it primarily to the financial risks of changes in interest rates. The Company uses interest rate swap contracts to hedge these exposures. The 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.

Changes in the fair value of the derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or 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.



**TVL FINANCE PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**3 ANALYSIS OF RESULTS BY GEOGRAPHICAL REGION**

	Unaudited Year ended 31 Dec 2016 £m	Audited Year ended 31 Dec 2015 £m
<b>Revenue</b>		
UK	<b>587.7</b>	<b>552.1</b>
International	<b>10.1</b>	<b>7.5</b>
	<b>597.8</b>	<b>559.6</b>
<b>EBITDA before exceptionals<sup>(1)</sup></b>		
UK before IFRS rent charge	<b>109.4</b>	<b>105.3</b>
IFRS rent charge	<b>(3.4)</b>	<b>(4.6)</b>
UK	<b>106.0</b>	<b>100.7</b>
International	<b>0.7</b>	<b>(0.2)</b>
	<b>106.7</b>	<b>100.5</b>
<b>Operating Profit / (Loss) before exceptionals</b>		
UK	<b>60.3</b>	<b>63.1</b>
International	<b>0.7</b>	<b>(0.2)</b>
	<b>61.0</b>	<b>62.9</b>
<b>(Loss) / Profit before tax before exceptionals</b>		
UK	<b>8.3</b>	<b>14.3</b>
International	<b>0.5</b>	<b>(0.4)</b>
	<b>8.8</b>	<b>13.9</b>
Exceptional items (note 6)	<b>(10.5)</b>	<b>(8.0)</b>
<b>(Loss) / Profit before tax after exceptionals</b>	<b>(1.7)</b>	<b>5.9</b>

1. EBITDA = Earnings before interest, taxes, depreciation and amortisation.

**TVL FINANCE PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**4 NET OPERATING EXPENSES (BEFORE EXCEPTIONAL ITEMS)**

	Unaudited Year ended 31 Dec 2016 £m	Audited Year ended 31 Dec 2015 £m
Cost of goods sold	37.5	35.8
Employee costs	136.2	118.7
Operating expenses	142.3	143.5
<b>Net operating expenses before rent, depreciation and amortisation</b>	<b>316.0</b>	<b>298.0</b>
Rent payable (third party landlords) for operating leases	175.3	160.0
Rent receivable	(3.6)	(3.5)
Net external rent payable	171.7	156.5
IFRS rent charge	3.4	4.6
<b>Net rent</b>	<b>175.1</b>	<b>161.1</b>
<b>Net operating expenses before depreciation and amortisation</b>	<b>491.1</b>	<b>459.1</b>
Depreciation	29.9	22.4
Amortisation	15.8	15.2
<b>Net depreciation and amortisation</b>	<b>45.7</b>	<b>37.6</b>
<b>Total net operating expenses</b>	<b>536.8</b>	<b>496.7</b>

**5 FINANCE COSTS**

	Unaudited Year ended 31 Dec 2016 £m	Audited Year ended 31 Dec 2015 £m
Interest on bank loans	11.5	27.8
Interest on bonds	20.9	-
Interest on obligations under finance leases	5.2	4.8
Unwinding of discount on provisions	0.7	0.8
<b>Finance costs before Investor Loan interest</b>	<b>38.3</b>	<b>33.4</b>
Interest on investor loan note	15.0	16.1
<b>Finance costs</b>	<b>53.3</b>	<b>49.5</b>

**6 EXCEPTIONAL ITEMS**

In the financial year to 31 December 2016, exceptional items of £10.5m consist mainly of £6.0m for the impairment of fixed assets in Aberdeen due to changes in local market demand, financing costs relating to restructuring the group's debt of £4.2m and a net provision reassessment of £0.3m.

In the financial year to 31 December 2015, exceptional items of £8.0m consist of £0.9m reassessment of provisions (being a £1.4m charge relating to the increase in the CVA Fund due to 2015 performance, and a net credit of £0.5m relating to reassessment of other various provisions), charges of £1.9m for a detailed property review, £1.1m for financial due diligence and £4.1m for other costs relating to advisory fees in respect of corporate strategy including other operating matters.

## 7 INTANGIBLE ASSETS

	Unaudited Year ended 31 Dec 2016 £m	Audited Year ended 31 Dec 2015 £m
Opening net book value	402.5	410.2
Additions	9.1	6.2
Movement on capital creditors	(0.9)	1.3
Write-down of fully depreciated assets	(2.9)	(1.4)
Depreciation	(15.8)	(15.2)
Write-back of fully depreciated assets	2.9	1.4
Impairment	(5.3)	-
<b>Closing net book value</b>	<b>389.6</b>	<b>402.5</b>

The closing net book value at 31 December 2016 comprises brand value of £145.0m, assets under construction of £3.3m, lease premiums of £231.4m and IT software of £9.9m.

The closing net book value at 31 December 2015 comprises brand value of £145.0m, assets under construction of £4.3m, lease premiums of £246.7m and IT software of £6.5m.

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 cost generating unit when assessing impairment.

Impairment reviews are performed annually at the Company's year end of 31 December. The Company prepares cash flow forecasts derived from the most recent financial budgets and financial plans approved by the Directors and extrapolates cash flows beyond this time based on an estimated long term growth rate of 2.5%. The key assumptions are consistent with past experience and with external sources of information. The resulting cash flows are discounted back at the Company's pre-tax weighted average cost of capital. Reviews are performed on a site by site basis over the length of the lease.

An impairment of £6.5m was made in 2016 (2015: £nil) of fixed assets in Aberdeen due to changes in local market demand. Of this impairment, £0.5m had previously been provided for and £6.0m was charged to the profit and loss. Of the impairment of £6.5m, £5.3m relates to Intangible assets (note 7) and £1.2m relates to Property, Plant and Equipment (note 8).

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 Year ended 31 Dec 2016 £m	Audited Year ended 31 Dec 2015 £m
Opening net book value	123.9	102.2
Additions	28.3	44.9
Movement on capital creditors	0.2	(0.8)
Write-down of fully depreciated assets	(5.7)	(5.5)
Depreciation	(29.9)	(22.4)
Write-back of fully depreciated assets	5.7	5.5
Impairment	(1.2)	-
<b>Closing net book value</b>	<b>121.3</b>	<b>123.9</b>

The closing net book value at 31 December 2016 comprises assets under construction of £3.3m, freehold and long leaseholds of £1.7m, financed leased land and buildings of £16.5m and fixtures and fittings of £99.8m.

The closing net book value at 31 December 2015 comprises assets under construction of £1.4m, freehold and long leaseholds of £1.7m, financed leased land and buildings of £16.9m and fixtures and fittings of £103.9m.

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.

An impairment of £6.5m was made in 2016 (2015: £nil) of fixed assets in Aberdeen due to changes in local market demand. Of this impairment, £0.5m had previously been provided for and £6.0m was charged to the profit and loss. Of the impairment of £6.5m, £5.3m relates to Intangible assets (note 7) and £1.2m relates to Property, Plant and Equipment (note 8).

**TVL FINANCE PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**9 TRADE AND OTHER RECEIVABLES**

	<b>Unaudited Year ended 31 Dec 2016 £m</b>	<b>Audited Year ended 31 Dec 2015 £m</b>
Amounts due within one year:		
Trade amounts receivable		
- Gross amounts receivable	<b>6.6</b>	<b>5.6</b>
- Bad debt provision	<b>(0.1)</b>	<b>(0.1)</b>
- Net amounts receivable	<b>6.5</b>	<b>5.5</b>
Other amounts receivable	<b>5.3</b>	<b>3.1</b>
Prepayments and accrued income	<b>35.3</b>	<b>34.7</b>
	<b>47.1</b>	<b>43.3</b>

**10 TRADE AND OTHER PAYABLES**

	<b>Unaudited Year ended 31 Dec 2016 £m</b>	<b>Audited Year ended 31 Dec 2015 £m</b>
Trade payables	<b>(15.6)</b>	<b>(17.0)</b>
Other payables	<b>(8.0)</b>	<b>(20.5)</b>
Social security and other taxation	<b>(10.5)</b>	<b>(7.3)</b>
Accruals	<b>(45.9)</b>	<b>(40.7)</b>
Prepaid room purchases	<b>(29.1)</b>	<b>(23.9)</b>
Capital payables	<b>(6.4)</b>	<b>(7.1)</b>
Amounts falling due within one year	<b>(115.5)</b>	<b>(116.5)</b>
Amounts falling due after one year		
Deferred income	<b>(9.8)</b>	<b>(7.1)</b>
<b>Total</b>	<b>(125.3)</b>	<b>(123.6)</b>

**TVL FINANCE PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**11 FINANCIAL ASSETS AND LIABILITIES**

	Maturity Date	Unaudited Year ended 31 Dec 2016 £m	Audited Year ended 31 Dec 2015 £m
Cash at bank and in hand		73.9	76.9
External debt redeemable:			
Fixed Rate Bond	May 2023	(290.0)	-
Floating Rate Bond	May 2023	(100.0)	-
Issue Costs		10.1	-
Senior 1st Lien	June 2017	-	(335.9)
Senior 2nd Lien	June 2018	-	(35.5)
Flare	June 2017	-	(12.9)
External debt		(379.9)	(384.3)
Net external debt		(306.0)	(307.4)
Investor Loan Note	January 2026	(138.1)	(143.1)
Net debt before finance leases		(444.1)	(450.5)
Finance leases		(31.8)	(31.1)
<b>Net debt including finance leases</b>		<b>(475.9)</b>	<b>(481.6)</b>

*The financial derivative asset of £0.6m (2015: £nil) is not included in the table above.*

On 11 May 2016, Travelodge completed a refinancing of its existing bank facilities. As part of this:

**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. Interest is fixed at 8.5% and is payable on a semi-annual basis.

Senior secured floating rate sterling denominated notes of £100m were issued on 10 May 2016 with a termination date of 11 May 2023. Interest is floating at three month LIBOR plus a margin of 7.5%. Interest is payable on a quarter basis. An Original Issue Discount fee ("OID") of £1.5m was paid on the date of issue of the notes.

**Revolving credit facility**

A sterling denominated revolving credit facility of £50m was made available to the group. At 11 May 2016 and the date of these financial statements, no drawing on this facility have been made.

**Letter of credit facility**

The letter of credit facility with a maximum usage of £40m was terminated and replaced with a new and equivalent facility with maximum usage of £30m. At 31 December 2016, the group had utilised £17.2m.

**Repayment**

Senior 1st Lien and 2nd Lien of £335.9m and £35.5m respectively were paid in full. In addition the Flare facility was also fully repaid in March 2016.

**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 reduced from 17% to 15% during 2016 and £20m of the loan was repaid. As at 31 December 2016, accrued interest for the period from 1 January 2016 to 31 December 2016 totalled £15.0m (2015: £16.1m). The investor loan note has a termination date of January 2026.

After 11 May 2016:

**Interest rate hedge**

Travelodge entered into an interest rate hedge against the floating rate bond of £100m 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. The hedge fixes the senior secured floating rate bond of £100m at 7.876%.

At 31 December 2016, the fair value of the hedge was £0.6m.

**TVL FINANCE PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**12 PROVISIONS**

	<b>Unaudited Year ended 31 Dec 2016 £m</b>	<b>Audited Year ended 31 Dec 2015 £m</b>
At 1 January 2016 / 2015	(28.6)	(31.0)
Cash spend	6.9	4.0
Reassessment of provisions	(0.3)	(0.9)
Unwinding of discount of provisions	(0.7)	(0.8)
Foreign exchange rate movement	(0.5)	0.1
<b>At 31 December 2016 / 31 December 2015</b>	<b>(23.2)</b>	<b>(28.6)</b>

**13 NOTE TO THE CASH FLOW STATEMENT**

	<b>Unaudited Year ended 31 Dec 2016 £m</b>	<b>Audited Year ended 31 Dec 2015 £m</b>
<b>Operating profit</b>	<b>50.5</b>	<b>54.9</b>
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	29.9	22.4
Amortisation of other intangible assets	15.8	15.2
Impairment of fixed assets	6.0	-
<b>Operating cash flows before movements in working capital</b>	<b>102.2</b>	<b>92.5</b>
Movement in inventory	-	(0.1)
Movement in receivables	(3.5)	7.7
Movement in payables	10.0	21.1
Movement in provisions	(6.6)	(3.1)
<b>Total working capital movement <sup>(1)</sup></b>	<b>(0.1)</b>	<b>25.6</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>102.1</b>	<b>118.1</b>

1. Working capital movement of £(0.1)m (2015: £25.6m) is after exceptional outflows of £(11.2)m (2015: inflows of £0.7m) and IFRS rent charge of £3.4m (2015: £4.6m). Working capital movement in "Memorandum - Analysis of free cash flow" on page 19 is stated before exceptional movements and IFRS rent charge.