TVL FINANCE PLC

YEAR ENDED 31 DECEMBER 2019

REPORT TO NOTEHOLDERS

£440,000,000 SENIOR SECURED FLOATING RATE NOTES DUE 2025

(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 June 2019 (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 periods 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 and our like-for-like reporting is prepared on this basis. In order to align this method with our quarterly and statutory annual accounting period on the basis of a calendar year from 1 January to 31 December, we make certain adjustments to our results at the end of each quarter to ensure that the reported period aligns with the corresponding calendar quarter. The Group will continue to present its consolidated financial statements going forward on this basis 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 period from 1 January 2019 to 31 December 2019 (prior year from 1 January 2018 to 31 December 2018), which are maintained in accordance with International Financial Reporting Standards ("IFRS").

The group has adopted IFRS 16 Leases from 1 January 2019, but has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard. In order to facilitate the comparability of the underlying business to the prior year following the adoption of IFRS 16, additional columns have been added to reflect the position in line with the accounting principles applicable to the previous year ("Before IFRS 16").

We continue to present 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 non-underlying items (material non-recurring and one-off in nature) and the rent free adjustment. The impact of IFRS 16 is also excluded from this measure.

Certain financial information, measures and ratios related thereto in this quarterly report, including the financial information presented on a 'before IFRS 16' basis and EBITDA (adjusted) (the "Non-IFRS Measures") are not specifically defined under IFRS or any other generally accepted accounting principles.

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 that 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 2019

Strong results but significant uncertainty ahead

Highlights – year ended 31 December 2019

- **Total revenue up 5.0%** to £727.9m (2018: £693.3m)
- RevPAR[(1)] up 0.3% to £41.75 (2018: £41.62)
- **RevPAR growth 2.3pts ahead** of competitive segment [(2)]
- Occupancy[(1)] up 2.1pts to 80.6%
- Average room rate[(1)] down (2.3)% at £51.82 (2018: £53.01)
- EBITDA[(3)] £341.3m (under IFRS 16)
- **EBITDA (adjusted)[(4)] up £7.1m** to £129.1m
- **14 new hotels** opened in the year
- **Cash position** - £89.2m at 31 December 2019
- 495 hotels achieving TripAdvisor rating of 4 stars (2018: 444)
- Network size increased by 2.3% to 588 hotels/44,832[(5)]
- Significant Covid-19 impact from early March

2019 Summary

In 2019, Travelodge has delivered another set of strong results.

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

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

The good like-for-like performance, together with the contribution from our recently opened new hotels, including the 14 opened during the year, as well as good growth in our Spanish business, helped increase sales by £34.6m, or 5.0%.

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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 = Earnings before interest, tax, depreciation, amortisation and non-underlying items presented on an IFRS basis – including IFRS 16
[4] EBITDA (adjusted) = Earnings before interest, tax, depreciation and amortisation, and before rent free adjustment, non-underlying items & reflective of the position in line with the accounting principles applicable to the previous year for purposes of comparability (before IFRS 16). Non-underlying items have been removed as they relate to non-recurring, one-off items
[5] Increase in rooms from 31 December 2018 to 31 December 2019

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

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

Financial Performance

For the year ended 31 December 2019:

UK like-for-like RevPAR was up 0.3% to £41.75, 2.3pts ahead of the growth rate of the STR MSE segment, which was down 2.0%[6]. This strong relative outcome was delivered by balancing strong growth in UK like-for-like occupancy of 2.1pts to 80.6%, with a reduction in UK like-for-like average room rate of 2.3% to £51.82 (2018: £53.01).

The contribution from our new and maturing hotels (the 17 maturing hotels opened in 2018 and the 14 new hotels opened in the year), higher food and beverage sales and the 0.3% UK like-for-like RevPAR growth, together with good growth in Spain, resulted in total revenue increasing 5.0% for the year to £727.9m.

This good revenue growth has helped to mitigate the significant cost increases we continue to face, including the further increases in the National Living Wage, general inflationary cost pressures and increased operating costs as a result of our improved occupancy. We also benefited from cost efficiency programmes and initiatives in a number of areas. EBITDA (adjusted) of £129.1m was up £7.1m on the prior year.

Closing cash at the year end was £89.2m and we also benefit from our long-term facilities including a £40m RCF with July 2024 maturity, which was fully drawn on 17 March 2020 and a new £60m RCF with May 2022 maturity, which remains undrawn.

For the quarter ended 31 December 2019:

UK like-for-like RevPAR was up 1.1% to £41.47, 2.9pts ahead of the growth rate of the STR MSE segment, which was down 1.8%[7] for the same period.

Total revenue growth in the quarter of 4.4% to £181.8m was driven mainly by our new and maturing hotels (the 17 maturing hotels opened in 2018 and the 14 new hotels opened in the year), the good UK like-for-like RevPAR growth and higher food and beverage sales, helped by our improved occupancy, and good growth in Spain.

This good revenue growth combined with the benefit from cost efficiency programmes and initiatives in a number of areas have offset the cost pressures we continue to face alongside the wider sector as a whole. EBITDA (adjusted) was up £2.9m to £26.9m.

Operational Update

We continued 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.

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[6] STR MS&E RevPAR growth 27 Dec 18 to 25 Dec 19

[7] STR MS&E RevPAR growth 26 Sep 19 to 25 Dec 19

Location

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

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

Price

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

Quality

We have been on a significant drive to improve quality over the last five years and this continued throughout 2019. We invested in further modernisation of our hotels, with a £17m investment programme during the year, adding USB ports by the bedside and upgrading to more energy efficient LED lighting, alongside investments to introduce upgraded, higher quality pull-out beds in our family rooms. Two years ago we led the industry with the launch of our premium economy 'SuperRooms' adding that little bit more choice for customers. These are now present in 51 hotels (1,813 rooms) across the UK and have been well received by both business and leisure customers alike. We also launched our first Travelodge Plus hotels, which offer a stylish new look and a new restaurant design that includes laptop power and social spaces for groups. During the year we added two further hotels, in the Thames Valley and in Edinburgh, bringing the total to eight. Supported by these initiatives, and the work of our nearly 12,000 colleagues across the country, our average TripAdvisor rating sits at 4 stars and we received a record 325 TripAdvisor Certificates of Excellence, an increase of 101 from the previous year.

Strategy Update

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

During that period the business has undergone a significant transformation.

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

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

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

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

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

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

Accounting Standards Update

The group has adopted IFRS 16, a new lease accounting standard, from 1 January 2019. The new standard has no economic impact on the business and will not change the way the business is run.

It has, however, had a significant impact on the presentation of the financial statements including reported EBITDA, reported profit before tax and the balance sheet treatment of leasehold obligations. As at 31 December 2019, the standard increased EBITDA(9) by £214.5m and increased the reported loss for the year (before non-underlying items) by £(54.7)m. Non-current assets (excluding deferred tax) have increased by £2.3bn, representing the right of use relating to leasehold obligations, and liabilities have increased by £(2.5)bn, representing the discounted value of future lease liabilities. The right of use asset is subject to annual impairment reviews and in 2019 an impairment loss of £14.1m has been recognised in non-underlying costs.

In implementing IFRS 16, the financial statements have been prepared under the modified retrospective approach under which comparative results are not restated. Accordingly, in order to facilitate comparability to the previously reported results, the financial statements include, where applicable, a reconciliation of the IFRS 16 result to the 'before IFRS 16'[(10)] result.

Notes

Thame and London Limited is currently discussing the audit of its financials for the year ended 31 December 2019 with its auditors. On 26 March 2020, the Financial Conduct Authority in the United Kingdom published a statement permitting a delay in the publication of audited annual financial reports for companies listed on regulated exchanges in the United Kingdom from four to six months from the end of the financial year. This policy is intended to be temporary while the United Kingdom faces the extreme disruption of the coronavirus pandemic and its aftermath, and recognises that some companies may have difficulties compiling audited financials while the current stay-at-home guidelines are in place, and also recognises that auditors may need additional time to assess the impact of the COVID-19 outbreak on the going concern analysis. Although the group is not listed, the auditors and the group are continuing to review the significant uncertainty surrounding the impact of the COVID-19 outbreak on the group's liquidity, and this uncertainty may affect the auditor's ability to deliver an audit opinion that is unqualified based on the going concern basis of accounting.

The group has received consents from bondholders and lenders to permit publication of the Annual Report to be delayed until 31 July 2020.

About Travelodge

Founded in 1985, Travelodge is one of the UK's leading hotel brands. There were 588 Travelodge hotels and 44,832 rooms in the UK, Ireland and Spain as at 31 December 2019. Travelodge welcomes approximately 19 million customers every year and over 11,500 colleagues worked across the business at the end of 2019.

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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[9] EBITDA – Earnings before interest, tax, depreciation, amortisation and non-underlying items.

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

OPERATING AND FINANCIAL REVIEW

Unaudited results of operations for the year ended 31 December 2019

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

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

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

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

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

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

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

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

Revenue

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

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

Operating expenses

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

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

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

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

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

Net external rent payable

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

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

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

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

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

Depreciation / Amortisation

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

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

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

Finance costs

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

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

Finance income

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

Non-underlying items

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

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

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

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

Loss Before Tax

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

Taxation

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

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

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

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

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

IFRS 16

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

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

Cash flow

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

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

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

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

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.

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

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

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

Net cash generated from operating activities

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

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

Working capital requirements

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

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

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

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

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

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

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

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

Net cash used in investing activities

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

Capital expenditure

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

Net cash used in financing activities

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

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

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

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

Corporation tax

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

IFRS 16

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

OPERATING AND FINANCIAL REVIEW

Unaudited results of operations for the quarter ended 31 December 2019 (Q4)

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

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

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

	Quarter ended 31 December 2019			Quarter ended 31 December 2018		
	Comparable to 2018 Reported Results			**2018 Reported Results**		
	Before IFRS 16[1]	**IFRS 16 impact**	**Statutory**	**Statutory**	Variance (2018 vs 2019 before IFRS 16[1])	Var
	£m	£m	£m	£m	£m	%
Revenue by geographical region						
Revenue	**181.8**	**-**	**181.8**	**174.1**	**7.7**	**4.4%**
Revenue UK	178.2	-	178.2	170.9	7.3	4.3%
Revenue International	3.6	-	3.6	3.2	0.4	12.5%
Key income statement items						
Revenue	**181.8**	**-**	**181.8**	**174.1**	**7.7**	**4.4%**
Operating expenses	(102.0)	-	(102.0)	(99.5)	(2.5)	(2.5)%
Of which cost of goods sold	*(10.7)*	-	*(10.7)*	*(10.8)*	*0.1*	*0.9%*
Of which employee costs	*(45.4)*	-	*(45.4)*	*(44.6)*	*(0.8)*	*(1.8)%*
Of which other operating expenses	*(45.9)*	-	*(45.9)*	*(44.1)*	*(1.8)*	*(4.1)%*
Net external rent payable	(52.9)	53.3	0.4	(50.6)	(2.3)	(4.5)%
EBITDA (adjusted)[2] / EBITDA[3]	**26.9** [2]	**53.3**	**80.2** [3]	**24.0**	**2.9**	**12.1%**
Rent free adjustment[4]	(0.6)	0.6	-	(0.5)	(0.1)	(20.0)%
Depreciation	(11.6)	(29.8)	(41.4)	(11.4)	(0.2)	(1.8)%
Amortisation	(4.6)	2.9	(1.7)	(4.1)	(0.5)	(12.2)%
Operating profit (before non-underlying items)	**10.1**	**27.0**	**37.1**	**8.0**	**2.1**	**26.3%**
Finance costs before investor loan interest	(9.8)	(41.6)	(51.4)	(10.2)	0.4	3.9%
Investor loan interest	(3.8)	-	(3.8)	(3.7)	(0.1)	(2.7)%
Finance income	0.2	-	0.2	0.3	(0.1)	(33.3)%
Loss for the period (before non-underlying items)	**(3.3)**	**(14.6)**	**(17.9)**	**(5.6)**	**2.3**	**41.1%**
Non-underlying items	(18.2)	3.2	(15.0)	(9.9)	(8.3)	(83.8)%
Loss for the period	**(21.5)**	**(11.4)**	**(32.9)**	**(15.5)**	**(6.0)**	**(38.7)%**
Income tax	8.0	(9.6)	(1.6)	7.5	0.5	6.7%
Loss for the period	**(13.5)**	**(21.0)**	**(34.5)**	**(23.5)**	**10.0**	**42.6%**

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

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

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

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

Revenue

Revenue increased by £7.7m, or 4.4%, from £174.1m for the period from 1 October 2018 to 31 December 2018 to £181.8m for the period from 1 October 2019 to 31 December 2019, with a good contribution from our recently opened new hotels, including the 14 opened in 2019 and the maturing 17 new hotels opened in 2018, including London City which continues to perform strongly.

UK like-for-like RevPAR was up 1.1% to £41.47, 2.9pts ahead of the growth rate of the STR Midscale and Economy Sector, which was down 1.8% for the same period. We also achieved good revenue growth in Spain (up 12.5%), delivered through increases in like-for-like average room rate and occupancy levels. UK food and beverage sales benefited from menu optimisation and occupancy growth.

Operating expenses

Operating expenses increased by £2.5m, or 2.5%, from £99.5m for the period from 1 October 2018 to 31 December 2018 to £102.0m for the period from 1 October 2019 to 31 December 2019. Cost increases were predominantly driven by increased costs from our new and maturing hotels opened since 2018, together with higher operational costs as a result of occupancy growth and the cost pressures facing the sector as a whole.

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

Decreases in cost of goods sold mainly reflect cost efficiencies in laundry and food and beverages.

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

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

Net external rent payable

Net external rent payable (before rent free adjustment and before IFRS 16[(1)]) increased by £2.3m, or 4.5%, from £50.6m for the period from 1 October 2018 to 31 December 2018 to £52.9m for the period from 1 October 2019 to 31 December 2019. This increase was primarily due to 2 new hotel openings during the quarter, the additional 12 opened earlier in the year and the annualisation of new hotel openings in 2018 and upwards only rent reviews predominantly linked to RPI.

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

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

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

Depreciation / amortisation

Depreciation (before IFRS 16[1]) increased by £0.2m, or 1.8%, from £11.4m for the period from 1 October 2018 to 31 December 2018 to £11.6m for the period from 1 October 2019 to 31 December 2019. This is mainly due to new hotel openings and ongoing investment in the maintenance and refurbishment of our estate, including upgrading our hotels to offer SuperRooms, Travelodge Plus and improved Wi-Fi. Energy efficiency investments, principally in LED lighting and heating controls, continued throughout the quarter and also contributed to the increased depreciation charge.

Amortisation (before IFRS 16[1]) increased by £0.5m, or 12.2%, from £4.1m for the period from 1 October 2018 to 31 December 2018 to £4.6m for the period from 1 October 2019 to 31 December 2019. This is mainly due to on-going website development.

Following the adoption of IFRS 16 on 1 January 2019, depreciation has increased by £29.8m, reflecting a charge for the right of use assets, and amortisation has decreased by £(2.9)m, reflecting a reclassification of leasehold premiums to right of use assets.

Finance costs

Finance costs before investor loan interest (before IFRS 16[1]) decreased by £0.4m, or 3.9%, from £10.2m for the period from 1 October 2018 to 31 December 2018 to £9.8m for the period from 1 October 2019 to 31 December 2019. Lower bond interest costs following the refinancing in July 2019 were partially offset by the impact of an increase in LIBOR.

Following the adoption of IFRS 16 on 1 January 2019, a notional additional finance cost of £41.6m has been incurred relating to the lease liabilities.

Finance income

Finance income of £0.3m for the period from 1 October 2018 to 31 December 2018 and £0.2m for the period from 1 October 2019 to 31 December 2019 is bank interest received.

Non-underlying items

In the quarter to 31 December 2019, non-underlying items (before taxation and the impact of IFRS 16[1]) of £18.2m includes £15.0m for the impairment of intangible assets and property plant & equipment, together with a net onerous lease provision reassessment of £3.0m, and £0.2m related to management incentives with respect to the restructuring of the Group’s debt and other exceptional corporate activities.

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

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

Non-underlying items (before taxation) of £9.9m for the quarter ended 31 December 2018 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 and management incentives relating to the restructuring of the Group's debt, and other exceptional corporate activities. Also included is £3.4m of additional provisions recognised, less a provision reassessment release of £2.3m and an inflow of £1.5m relating to the surrender of the lease at Cambridge Lolworth. These non-underlying items resulted in a £0.5m decreased tax charge.

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 June 2019, and the 2018 Annual Report for the year ended 31 December 2018 for a description of the risks that they should consider when making investment decisions about the Notes.

The Covid-19 situation in the UK is still developing and it is too early to assess the possible impacts on Travelodge which will depend on the severity and duration of the current situation and the longevity of its impact on the economy and future consumer behaviour. We expect to see a sustained period of closure of our hotels and continued disruption in the short-term.

Registered number: 08170768

THAME AND LONDON LIMITED

UNAUDITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

THAME AND LONDON LIMITED
CONDENSED CONSOLIDATED PROFIT AND LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019

		Unaudited Year ended 31 December 2019						Audited Year ended 31 December 2018		
		Comparable to 2018 Report Results			IFRS 16 impact			2018 Reported Results		
	Note	Underlying before IFRS 16[1] £m	Non-underlying before IFRS 16[1] £m	Total before IFRS 16[1] £m	IFRS 16 impact £m	Non-underlying IFRS 16 £m	Statutory £m	Underlying £m	Non-underlying £m	Statutory £m
Revenue	4	727.9	-	727.9	-	-	**727.9**	693.3	-	**693.3**
Operating Expenses	5	(390.0)	(0.8)	(390.8)	-	-	**(390.8)**	(374.4)	(5.2)	**(379.6)**
Rent	5	(211.1)	(3.0)	(214.1)	214.5	3.0	**3.4**	(198.8)	(0.4)	**(199.2)**
EBITDA after rent free adjustment	4	**126.8**	**(3.8)**	**123.0**	**214.5**	**3.0**	**340.5**	**120.1**	**(5.6)**	**114.5**
Depreciation, Amortisation & Impairment	5	(62.1)	(15.0)	(77.1)	(105.9)	0.2	**(182.8)**	(58.8)	(6.7)	**(65.5)**
Operating Profit / (Loss)	4	**64.7**	**(18.8)**	**45.9**	**108.6**	**3.2**	**157.7**	**61.3**	**(12.3)**	**49.0**
Finance Costs	6	**(52.3)**	(15.3)	(67.6)	**(163.3)**	**-**	**(230.9)**	(53.6)	(1.4)	**(55.0)**
Finance Income		0.7	-	0.7	-	-	**0.7**	0.9	-	**0.9**
Profit / (Loss) before Tax	4	**13.1**	**(34.1)**	**(21.0)**	**(54.7)**	**3.2**	**(72.5)**	**8.6**	**(13.7)**	**(5.1)**
Income Tax		3.5	6.8	10.3	(5.0)	(0.5)	**4.8**	0.6	0.3	**0.9**
Profit / (Loss) for the Period		**16.6**	**(27.3)**	**(10.7)**	**(59.7)**	**2.7**	**(67.7)**	**9.2**	**(13.4)**	**(4.2)**

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

Memorandum - EBITDA (adjusted)[2]

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

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

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

THAME AND LONDON LIMITED
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2019

	Foreign Exchange Reserve £m	Cash Flow Hedge Reserve £m	Accumulated Losses £m	Total deficit £m
1 January 2018	**(0.6)**	**0.5**	**(89.5)**	**(89.6)**
Loss for the year	-	-	(4.2)	**(4.2)**
Other comprehensive income / (expense)				
Movement in fair value of hedging derivatives	-	(0.1)	-	**(0.1)**
Currency translation differences	0.3	-	-	**0.3**
Total comprehensive income / (expense)	**0.3**	**(0.1)**	**(4.2)**	**(4.0)**
1 January 2019	**(0.3)**	**0.4**	**(93.7)**	**(93.6)**
Adjustment on adoption of IFRS 16 (net of tax) (Note 3)	**-**	**-**	(179.6)	**(179.6)**
Restated total equity at 1 January 2019	**(0.3)**	**0.4**	**(273.3)**	**(273.2)**
Loss for the year	-	-	(67.7)	**(67.7)**
Other comprehensive expense				
Movement in fair value of hedging derivatives	-	(0.4)	-	**(0.4)**
Currency translation differences	(0.1)	-	-	**(0.1)**
Total comprehensive expense	**(0.1)**	**(0.4)**	**(67.7)**	**(68.2)**
31 December 2019	**(0.4)**	**-**	**(341.0)**	**(341.4)**

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

	Note	Unaudited 31 December 2019 Comparable to 2018 Reported Results Before IFRS 16[1] £m	IFRS 16 impact £m	Statutory £m	Audited 31 December 2018 2018 Reported Results Statutory £m
NON CURRENT ASSETS					
Intangible assets	*8*	**347.1**	**(187.5)**	**159.6**	**365.5**
Property, plant and equipment	*9*	**144.4**	**(11.5)**	**132.9**	**140.3**
Right of Use assets	*10*	**-**	**2,521.3**	**2,521.3**	**-**
Deferred tax asset		**50.0**	**8.9**	**58.9**	**47.4**
		541.5	**2,331.2**	**2,872.7**	**553.2**
CURRENT ASSETS					
Financial derivative asset		**0.3**	**-**	**0.3**	**0.5**
Inventory		**1.2**	**-**	**1.2**	**1.1**
Trade and other receivables	*12*	**55.2**	**(36.6)**	**18.6**	**48.4**
Cash and cash equivalents		**89.2**	**-**	**89.2**	**81.8**
		145.9	**(36.6)**	**109.3**	**131.8**
TOTAL ASSETS		**687.4**	**2,294.6**	**2,982.0**	**685.0**
CURRENT LIABILITIES					
Trade and other payables	*13*	**(124.4)**	**4.7**	**(119.7)**	**(133.6)**
Lease liabilities	*11*	**-**	**(47.6)**	**(47.6)**	**-**
Provisions	*16*	**(1.7)**	**1.6**	**(0.1)**	**(1.7)**
		(126.1)	**(41.3)**	**(167.4)**	**(135.3)**
NON-CURRENT LIABILITIES					
Bond related debt	*15*	**(432.1)**	**-**	**(432.1)**	**(420.8)**
Investor loan	*15*	**(111.3)**	**-**	**(111.3)**	**(97.0)**
Obligations under finance leases		**(33.6)**	**33.6**	**-**	**(32.8)**
Lease liabilities	*11*	**-**	**(2,549.8)**	**(2,549.8)**	**-**
Deferred tax liability		**(54.1)**	**(1.1)**	**(55.2)**	**(60.5)**
Accruals	*13*	**(17.8)**	**17.8**	**-**	**(15.3)**
Provisions	*16*	**(17.2)**	**9.6**	**(7.6)**	**(16.9)**
		(666.1)	**(2,489.9)**	**(3,156.0)**	**(643.3)**
TOTAL LIABILITIES		**(792.2)**	**(2,531.2)**	**(3,323.4)**	**(778.6)**
NET LIABILITIES		**(104.8)**	**(236.6)**	**(341.4)**	**(93.6)**
EQUITY					
Share capital		**-**	**-**	**-**	**-**
Foreign exchange reserve		**(0.4)**	**-**	**(0.4)**	**(0.3)**
Cash flow hedge reserve		**-**	**-**	**-**	**0.4**
Accumulated losses		**(104.4)**	**(236.6)**	**(341.0)**	**(93.7)**
TOTAL EQUITY		**(104.8)**	**(236.6)**	**(341.4)**	**(93.6)**

Memorandum - Analysis of net funding

	Note	Unaudited 31 December 2019 Comparable to 2018 Reported Results Before IFRS 16[1] *£m*	IFRS 16 impact *£m*	Statutory *£m*	Audited 31 December 2018 2018 Reported Results Statutory *£m*
Cash at bank		***89.2***	***-***	***89.2***	***81.8***
External debt redeemable (excluding finance leases):					
Fixed Rate Bond	*15*	***-***	***-***	***-***	***(232.0)***
Floating Rate Bond	*15*	***(440.0)***	***-***	***(440.0)***	***(195.0)***
Issue costs	*15*	***7.9***	***-***	***7.9***	***6.2***
Gross debt	*15*	***(432.1)***	***-***	***(432.1)***	***(420.8)***
External net debt		***(342.9)***	***-***	***(342.9)***	***(339.0)***
Investor loan	*15*	***(111.3)***	***-***	***(111.3)***	***(97.0)***
Finance leases		***(33.6)***	***33.6***	***-***	***(32.8)***
Net debt		***(487.8)***	***33.6***	***(454.2)***	***(468.8)***
Lease liabilities	*11*	***-***	***(2,597.4)***	***(2,597.4)***	***-***
		(487.8)	***(2,563.8)***	***(3,051.6)***	***(468.8)***

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

THAME AND LONDON LIMITED
CONDENSED CONSOLIDATED CASH FLOW STATEMENT
AS AT 31 DECEMBER 2019

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

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

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

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

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

3. In 2019, cash spend on provisions and non-underlying items of £27.2m included costs of refinancing the Travelodge Group of £18.5m, non-underlying legal and advisors' fees and management incentives relating to the restructuring of the Group's debt and other non-underlying corporate activities of £5.6m and onerous lease provisions of £3.1m. In 2018, cash spend on provisions and non-underlying items of £10.6m includes transaction costs of refinancing the Travelodge Group of £0.9m and other costs of £10.4m, including the costs of early redemption, legal and advisor's fees and management incentives relating to the restructuring of the Group's debt and other non-underlying corporate activities, plus £0.8m relating to the surrender of the lease at the closed Gatwick Airport hotel, partially offset by an inflow of funds related to the surrender of the lease at Cambridge Lolworth of £1.5m.

Reconciliation of net cash flows from operating activities before non-underlyings to net cash generated from operating activities (note 17)	*Unaudited* Year ended 31 December 2019	*Audited* *Year ended 31 December 2018*
	Before IFRS 16(1)	*Statutory*
Net cash flows from operating activities before non-underlyings	121.7	126.9
Cash spend on non-underlying items through profit and loss	-	0.1
Cash spend on non-underlying items through working capital [4]	(8.7)	(9.9)
Cash flows from operating activities	113.0	117.1
Corporate tax	(1.4)	(0.7)
Net cash generated from operating activities	111.6	116.4

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

1 GENERAL INFORMATION

Thame and London Limited ("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. Thame and London Limited, formerly Anchor UK Bidco Limited (the Company) is a private company limited by share capital and was incorporated in the United Kingdom on 7th August 2012. The Company changed its name from Anchor UK Bidco Limited on 23rd May 2013. The Company is domiciled in the UK.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The interim condensed consolidated financial statements are prepared in accordance with IAS 34 'Interim Financial Reporting'.

The interim financial report does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006.

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2018. The policies shown are an extract from the full disclosure in the annual financial statements for the year ended 31 December 2018, as not all policies are given.

Statutory accounts for the year ended 31 December 2018 were approved by the board of directors on 4 April 2019 and delivered to the Registrar of Companies.

These published accounts were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the European Union, and reported on by the auditor without qualification or statement under Sections 498(2) or (3) of the Companies Act 2006.

The group has adopted IFRS 16 Leases from 1 January 2019, but has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard. In order to facilitate the comparability of the underlying business to the prior year following the adoption of IFRS 16, additional columns have been added to reflect the position in line with the accounting principles applicable to the previous year ('Before IFRS 16').

New and Amended Standards

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

IFRS 16, 'Leases'

The new accounting policy is given below and the impact of its adoption is described in note 3.

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 2019. Control is achieved when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Uniform accounting policies are adopted across the Group.

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

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

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.

Seasonality

Revenue in the hotel sector fluctuates by season. The first quarter of the year is typically the hotel industry's lowest seasonal demand period and usually our smallest in financial terms, with the third quarter normally being our busiest and largest.

Revenue recognition

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

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

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.

Non-underlying items

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

Leasing

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

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while receiving or controlling more than an insignificant benefit from use of the asset;
- the purchaser had the ability or right to control physical access to the asset while receiving or controlling more than an insignificant benefit from use of the asset;
- the facts and circumstances indicated that it was remote that other parties would receive or control more than an insignificant benefit from use of the asset.

Policy applicable from 1 January 2019

At inception of a contract, the group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the group has the right to obtain substantially all of the economic benefit from use of the asset throughout the period of use; and

- the group has the right to direct the use of the asset. The group has this right when it has the decision-making rights that are the most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the group has the right to direct the use of the asset if either:
  - the group has the right to operate the asset; or
  - the group designed the asset in a way that predetermines how and for what purpose it will be used

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

As a lessee

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

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

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

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

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

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

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

Short-term leases and leases of low-value assets

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

Under IAS 17

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

Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the group's consolidated balance sheet. Payments made under operating leases were recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

As a lessor

When the group acts as a lessor, it determines at lease inception whether each lease is a finance lease or operating lease.

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

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

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

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

The key sensitivities resulting from estimates in the calculation of the IFRS 16 numbers are:

- the discount rate used (in the interim financial report no assessment has been made of the impact of a change in the discount rate).
- recognising right of use assets and lease liabilities based on lease terms which extend to the first break clause only.

Taxation

Taxes on income in the interim periods are accrued using the tax rate which would be applicable to expected total annual earnings.

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 2019 principally relate to onerous leases.

3 CHANGES IN ACCOUNTING POLICIES

As indicated in note 2 above, the group has adopted IFRS 16 Leases from 1 January 2019, but has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard.

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

It has had a significant impact on the presentation of the financial statements including reported EBITDA, reported profit before tax and the balance sheet treatment of leasehold obligations. IFRS 16 has materially increased the Group's recognised assets and liabilities in the Consolidated Balance Sheet introducing right-of-use assets and lease liabilities calculated based on discounted future committed lease payments. It has also materially changed the presentation and timing of recognition of charges in the Consolidated Income Statement. The operating lease expense previously reported under IAS 17, typically on a straight-line basis, within EBITDA (adjusted), has been replaced by depreciation of the right-of-use asset and notional financing costs on the lease liability. This results in increased 'lease-related expenses' being charged to the Consolidated Income Statement in the early years of a lease due to the front-loaded notional financing costs, significantly reducing reported Profit / (Loss) Before Tax.

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

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

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

The adoption of IFRS 16 resulted in the following transition adjustment at 1 January 2019:

As at 31 December 2018, the Group had non-cancellable lease commitments of £4,394m.

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

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

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

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

In applying IFRS 16 for the first time, the group performed a retrospective impairment test as at 1 January 2019. The test used an incremental borrowing rate for each identifiable cash generating unit. As a result of this test, the group recognised an impairment loss on transition of £35.7m relating to right-of-use assets. In addition, a reduction of £10.5m was made in respect of onerous leases recognised at the date of adoption (see note 10).

The group also used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application,
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

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

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

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

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees

- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

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

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

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

Variable lease payments

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

Extension and termination options

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

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

4 ANALYSIS OF RESULTS BY GEOGRAPHICAL REGION

	Unaudited Year ended 31 December 2019 £m	Audited Year ended 31 December 2018 £m
Revenue		
UK	**713.1**	**680.1**
International	**14.8**	**13.2**
Revenue	**727.9**	**693.3**
EBITDA - Underlying		
UK EBITDA (adjusted)[1]	**126.4**	**120.4**
Rent free adjustment	**(2.3)**	**(1.9)**
UK EBITDA after rent free adjustment	**124.1**	**118.5**
International EBITDA after rent free adjustment	**2.7**	**1.6**
EBITDA after rent free adjustment before IFRS 16	**126.8**	**120.1**
UK IFRS 16 EBITDA adjustment	**210.2**	**-**
International IFRS 16 EBITDA adjustment	**4.3**	**-**
EBITDA after rent free adjustment - Underlying	**341.3**	**120.1**
Non-underlying items (Total)	**(0.8)**	**(5.6)**
EBITDA after rent free adjustment	**340.5**	**114.5**
Operating profit - Underlying		
UK	**62.2**	**59.9**
International	**2.5**	**1.4**
Operating profit before IFRS 16 - Underlying	**64.7**	**61.3**
UK IFRS 16 Operating profit adjustment	**106.9**	**-**
International IFRS 16 Operating profit adjustment	**1.7**	**-**
Operating profit - Underlying	**173.3**	**61.3**
Non-underlying items (Total)	**(15.6)**	**(12.3)**
Operating profit	**157.7**	**49.0**
Profit / (Loss) before tax - Underlying		
UK	**10.7**	**7.1**
International	**2.4**	**1.5**
Profit before tax - Underlying	**13.1**	**8.6**
Non-underlying items before IFRS 16 (note 7)	**(34.1)**	**(13.7)**
Loss before tax and IFRS 16	**(21.0)**	**(5.1)**
UK IFRS 16 Loss before tax adjustment	**(50.1)**	**-**
International IFRS 16 Loss before tax adjustment	**(1.4)**	**-**
Loss before tax	**(72.5)**	**(5.1)**

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

5 NET OPERATING EXPENSES (BEFORE NON-UNDERLYING ITEMS)

	Unaudited			Audited
	Year ended 31 December 2019			Year ended 31 December 2018
	Underlying before IFRS 16[1]	Underlying IFRS 16 impact	Underlying Statutory	Underlying Statutory
	£m	£m	£m	£m
Cost of goods sold	43.1	-	43.1	42.6
Employee costs	173.9	-	173.9	165.6
Operating expenses	173.0	-	173.0	166.2
Net operating expenses before rent, depreciation and amortisation	390.0	-	390.0	374.4
Rent payable (third party landlords)[3]	212.8	(212.2)	0.6	201.0
Rent receivable	(4.0)	-	(4.0)	(4.1)
Net external rent payable	208.8	(212.2)	(3.4)	196.9
Rent free adjustment[2]	2.3	(2.3)	-	1.9
Net rent	211.1	(214.5)	(3.4)	198.8
Net operating expenses before depreciation and amortisation	601.1	(214.5)	386.6	573.2
Depreciation	44.6	117.7	162.3	42.2
Amortisation	17.5	(11.8)	5.7	16.6
Net depreciation and amortisation	62.1	105.9	168.0	58.8
Total net operating expenses	663.2	(108.6)	554.6	632.0

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

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

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

6 FINANCE COSTS

	Unaudited Year ended 31 December 2019	Audited Year ended 31 December 2018
	Statutory £m	Statutory £m
Finance fees	2.1	1.8
Interest on bank loans	1.0	1.2
Interest on fixed and floating rate bonds	29.1	30.5
Interest on obligations under finance leases	5.3	5.2
Unwinding of discount on provisions	0.5	0.6
Finance costs before interest on investor loan, non-underlying items and IFRS 16	38.0	39.3
Interest on investor loan	14.3	14.3
Finance costs before non-underlying items and IFRS 16	52.3	53.6
Non-underlying items:		
Fees in relation to restructuring of debt	15.3	1.4
Finance costs before IFRS 16	67.6	55.0
IFRS 16 adjustment[1]	163.3	-
Finance costs after IFRS 16	230.9	55.0

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

7 NON-UNDERLYING ITEMS

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

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

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

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

8 INTANGIBLE ASSETS

	Unaudited			Audited
	31 December 2019			31 December 2018
	Before IFRS 16[1]	IFRS 16 impact	Statutory	Statutory
	£m	£m	£m	£m
Opening net book value	365.5	-	365.5	380.0
Impact of adoption of IFRS 16	-	(206.8)	(206.8)	-
Revised opening net book value	365.5	(206.8)	158.7	380.0
Additions	9.0	(1.8)	7.2	6.3
Movement on capital creditors	(0.6)	-	(0.6)	0.2
Amortisation	(17.5)	11.8	(5.7)	(16.6)
Impairment	(9.3)	9.3	-	(4.4)
Closing net book value	**347.1**	**(187.5)**	**159.6**	**365.5**

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

The closing net book value at 31 December 2019 (before IFRS 16) comprises brand value of £145.0m, assets under construction of £5.6m, lease premiums of £187.5m and IT software of £9.0m. The IFRS 16 adjustment relates to the reclassification of lease premiums to right of use assets (note 10).

The closing net book value at 31 December 2018 comprises brand value of £145.0m, assets under construction of £3.9m, lease premiums of £206.8m and IT software of £9.8m.

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.

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

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

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

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

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

9 PROPERTY, PLANT AND EQUIPMENT

	31 December 2019			31 December 2018
	Before IFRS 16[1]	**IFRS 16 impact**	**Statutory**	**Statutory**
	£m	**£m**	**£m**	**£m**
Opening net book value	**140.3**	**-**	**140.3**	**132.4**
Impact of adoption of IFRS 16[2]	**-**	**(16.9)**	**(16.9)**	**-**
Revised opening net book value	**140.3**	**(16.9)**	**123.4**	**132.4**
Additions	**56.9**	**-**	**56.9**	**52.7**
Movement on capital creditors	**(2.3)**	**-**	**(2.3)**	**(0.3)**
Disposals	**(0.2)**	**-**	**(0.2)**	**-**
Depreciation	**(44.6)**	**0.4**	**(44.2)**	**(42.2)**
Impairment	**(5.7)**	**5.0**	**(0.7)**	**(2.3)**
Closing net book value	**144.4**	**(11.5)**	**132.9**	**140.3**

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

[2] The impact of the adoption of IFRS 16 consists of the transfer of £15.5m from Property, Plant & Equipment to Right of Use assets, representing the net book value of assets previously classified as finance lease assets, together with an additional £1.4m impairment to fixtures and fittings on transition.

The closing net book value at 31 December 2019 (before IFRS 16) comprises assets under construction of £2.9m, freehold and long leaseholds of £1.6m, finance leased land and buildings of £15.1m and fixtures and fittings of £124.8m.

The IFRS 16 adjustment relates to the reclassification of finance leases to right of use assets (note 10).

The closing net book value at 31 December 2018 comprises assets under construction of £1.4m, freehold and long leaseholds of £1.6m, financed leased land and buildings of £15.5m and fixtures and fittings of £121.8m.

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.

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

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

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

Before IFRS 16

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

Statutory

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

10 RIGHT OF USE ASSETS

	Unaudited 31 December 2019 £m	Audited 31 December 2018 £m
Opening net book value	-	-
Impact of adoption of IFRS 16[1]	**2,536.7**	-
New leases	**64.1**	-
Rent Review Adjustments	**52.6**	-
Additions[2]	**1.8**	-
Foreign Exchange Translation Adjustment	**(1.7)**	-
Depreciation	**(118.1)**	-
Impairment	**(14.1)**	-
Closing net book value	**2,521.3**	-

(1) The impact of adoption of IFRS 16 is made up of:
(i) The transfer of £15.5m from Property, Plant & Equipment which represents the net book value of assets previously classified as finance lease assets.
(ii) The transfer of £206.8m from Intangible Assets which represents the net book value of assets previously classified as lease premiums.
(iii) The transfer of £10.5m from provisions which is in respect of leases for which onerous lease provisions were held at the transition date.
(iv) Additional new assets recognised of £2,360.60 in respect of operating leases
(v) An impairment of £35.7m to the Right of Use asset at the transition date.

(2) Additions relate to leasehold premiums

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

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

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

11 IFRS 16 LEASE LIABILITIES

	Unaudited 31 December 2019 £m	Audited 31 December 2018 £m
Opening Balance	-	-
Transfer from Finance Lease Creditor[1]	(32.8)	-
New Lease Liabilities on Adoption	(2,509.1)	-
Adoption of IFRS 16	(2,541.9)	-
New leases	(64.1)	-
Rent Review Adjustments	(52.6)	-
Foreign Exchange Translation Adjustment	1.9	-
Finance Costs	(169.1)	-
Payments - Finance Leases	4.5	-
Payments - Operating Leases	223.9	-
Closing Balance	**(2,597.4)**	**-**
Amounts falling due within one year	(47.6)	-
Amounts falling due after one year	(2,549.8)	-
	(2,597.4)	-

[1] Following the adoption of IFRS 16 on 1 January 2019, leases previously classified as finance leases have been included in the IFRS 16 lease liability.

Lease liabilities have been discounted at a weighted average discount rate of 7.10% and represent leases with a weighted average remaining length from the balance sheet date of 23.1 years. This compares to the pre-tax weighted average discount rate used to create the lease liabilities of 7.1% with a range of 5.5% to 9.1%.

12 TRADE AND OTHER RECEIVABLES

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

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

The IFRS 16 impact represents the fact that all rent prepayments are now reflected as a reduction to the lease liabilities once the payments are made.

13 TRADE AND OTHER PAYABLES

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

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

The IFRS 16 impact represents the fact that all rent review accruals in respect of reviews not yet agreed and accruals relating to rent free periods are now reflected as adjustments to the right of use assets and lease liabilities.

14 POST BALANCE SHEET EVENTS

A £40m drawdown on the revolving credit facility was made in March 2020. On 20 April 2020, the Group entered a new £60m revolving credit facility agreement. The new credit facility has a maturity of May 2022 and remains undrawn.

15 FINANCIAL ASSETS AND LIABILITIES

		Unaudited			Audited
		31 December 2019			31 December 2018
	Maturity Date	Before IFRS 16[(1)] £m	IFRS 16 impact £m	Statutory £m	Statutory £m
Cash at bank and in hand		89.2	-	89.2	81.8
External debt redeemable:					
Fixed Rate Bond	May 2023	-	-	-	(232.0)
Floating Rate Bond	May 2023	(440.0)	-	(440.0)	(195.0)
Issue Costs		7.9	-	7.9	6.2
External debt		(432.1)	-	(432.1)	(420.8)
Net external debt		(342.9)	-	(342.9)	(339.0)
Investor Loan Note	January 2026	(111.3)	-	(111.3)	(97.0)
Net debt before finance leases		(454.2)	-	(454.2)	(436.0)
Obligations under Finance leases		(33.6)	33.6	-	(32.8)
Lease liabilities under IFRS 16		-	(2,597.4)	(2,597.4)	-
Net debt including finance leases		(487.8)	(2,563.8)	(3,051.6)	(468.8)

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

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

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

Senior secured notes

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

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

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

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

Revolving credit facility

At the balance sheet date, a sterling denominated revolving credit facility of £40m was available to the Group until July 2024. At the date of these financial statements the facility was fully drawn.

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

Letter of credit facility

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

Issue costs

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

Investor loan note

The interest rate charged on the investor loan note is 15%. Accrued interest for year to 31 December 2019 totalled £14.3m (2018: £14.3m). The investor loan note has a termination date of January 2026.

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

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

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

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

(3) Financial liabilities (before IFRS 16) of £158.2m (2018: £157.2m) are made up of finance lease payables of £33.6m (2018: £32.8m), provisions of £18.9m (2018: £18.6m), trade payables of £13.4m (2018: £15.5m), capital payables of £5.8m (2018: £8.7m), accruals of £77.8m (2018: £74.1m) and other payables of £8.7m (2018: £7.5m).

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

Interest rate cap
On 30 July 2019, Travelodge paid an upfront premium of £467k to purchase an interest rate cap in relation to the senior secured floating sterling denominated notes, on a notional amount of £300m.

The interest rate cap commences in respect of payments due on 15 January 2020 and is due to terminate on 15 October 2022.

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

Interest rate hedge
On 15 August 2019 the interest rate hedge expired. The interest rate hedge was 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 was fixed at 0.376% and the receive rate of the hedge floated to LIBOR.

At 31 December 2019, the fair value of the hedge was £nil (31 December 2018: £0.4m).

Swaption
On 30 June 2017, Travelodge entered into a swaption in relation to the senior secured floating sterling denominated notes of £165m.

The swaption commenced on 15 May 2019 and was due to terminate on 15 May 2021. On 15 May 2019 LIBOR was less than 1.5% so the product was not activated and expired. At 31 December 2019, the fair value of the swaption was £nil (31 December 2018: £0.1m).

16 PROVISIONS

	Unaudited			Audited
	31 December 2019			31 December 2018
	Before IFRS 16[1] £m	IFRS 16 impact £m	Statutory £m	Statutory £m
At 1 January 2019	(18.6)	10.5	(8.1)	(23.0)
Cash spend	3.1	(2.7)	0.4	9.4
Reassessment of provisions	(3.0)	3.0	-	(1.1)
Unwinding of discount on provisions	(0.5)	0.5	-	(0.6)
Foreign exchange rate movement	0.1	(0.1)	-	-
Transfer from accruals	-	-	-	(3.3)
At 31 December 2019	**(18.9)**	**11.2**	**(7.7)**	**(18.6)**
The balance can be analysed as:				
Due in less than one year	(1.7)	1.6	(0.1)	(1.7)
Due in greater than one year	(17.2)	9.6	(7.6)	(16.9)
	(18.9)	11.2	(7.7)	(18.6)

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

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

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

Onerous lease provisions relate to the future discounted cash outflow in relation to certain rent and rates liabilities where no economic benefit is expected to accrue to the Group. These provisions have an average remaining lease term of 15 years and have been discounted at a 'before IFRS 16' pre-tax risk free rate of 4.0% (2018: 4.0%).

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

17 NOTE TO THE CASH FLOW STATEMENT

	Unaudited			Audited
	Year ended 31 December 2019			Year ended 31 December 2018
	Before IFRS 16[1]	IFRS 16 impact	Statutory	Statutory
	£m	£m	£m	£m
Operating profit	**45.9**	**111.8**	**157.7**	**49.0**
Adjustments for non-cash items:				
Depreciation of property, plant and equipment	**44.6**	**117.7**	**162.3**	**42.2**
Amortisation of other intangible assets	**17.5**	**(11.8)**	**5.7**	**16.6**
Impairment of fixed assets	**15.0**	**(0.2)**	**14.8**	**6.7**
	77.1	**105.7**	**182.8**	**65.5**
Operating cash flows before movements in working capital	**123.0**	**217.5**	**340.5**	**114.5**
Movement in inventory	**(0.1)**	**-**	**(0.1)**	**(0.1)**
Movement in receivables	**(6.9)**	**1.4**	**(5.5)**	**(4.7)**
Movement in payables	**(2.9)**	**5.3**	**2.4**	**12.4**
Movement in provisions	**(0.1)**	**(0.3)**	**(0.4)**	**(5.0)**
Total working capital movement[2]	**(10.0)**	**6.4**	**(3.6)**	**2.6**
Cash flows from operating activities	**113.0**	**223.9**	**336.9**	**117.1**
Corporate tax	**(1.4)**	**-**	**(1.4)**	**(0.7)**
Net Cash Generated from operating activities	**111.6**	**223.9**	**335.5**	**116.4**

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

[2] Working capital movement of £(10.0)m (2018: £2.6m) is after non-underlying outflows of £4.9m (2018: outflows of £4.2m) and before rent free adjustment of £2.3m (2018: £1.9m). Working capital movement in "Memorandum - Analysis of free cash flow" on page 23 is stated before non-underlying movements and before rent free adjustment.

18 ALTERNATIVE PERFORMANCE MEASURES (APMS)

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

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

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

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

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

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

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

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

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

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

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

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