

TRAVELODGE HOTELS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021



TRAVELODGE HOTELS LIMITED

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TRAVELODGE HOTELS LIMITED

COMPANY INFORMATION

DIRECTORS

Craig Bonnar
Jo Boydell
Martin Robinson (Appointed 25 March 2021)

COMPANY SECRETARIES

Jo Boydell
Katherine Thomas

REGISTERED OFFICE

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Oxfordshire
OX9 3AT

BANKERS

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London
E14 5HP

SOLICITORS

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London
EC1Y 4AG

INDEPENDENT AUDITORS

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

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Our Purpose

At Travelodge, our purpose is to provide affordable travel for everyone, offering our customers the best balance of location, price and quality for their travel needs.

Highlights

Total underlying revenue



down (22.4)% from 2019

EBITDA (adjusted) ⁽³⁾



Underlying operating (loss) / profit before IFRS 16 ⁽⁴⁾



Statutory loss before tax



2021 Performance Headlines

- Total underlying revenue down 22.4% against 2019 to £553.6m (2019: £713.2m, 2020: £280.4m)
- RevPAR⁽¹⁾ down 21.5% against 2019 to £33.05 (2019: £42.09, 2020: £16.61)
- RevPAR performance 10.8pts ahead of the competitive segment⁽²⁾ vs 2019
- Occupancy⁽¹⁾ down 18.0pts against 2019 to 62.6% (2019: 80.6%, 2020: 40.8%)
- Average room rate⁽¹⁾ up 1.1% against 2019 at £52.77 (2019: £52.20, 2020: £40.70)
- EBITDA (adjusted)⁽³⁾ profit of £83.1m (2019: profit £126.4m, 2020: loss of £70.4m)
- Cash of £142.1m at 31 December 2021 (2019: £83.1m, 2020: £134.7m)
- 17 new hotels opened in the year
- Total network now 581 hotels and 44,363 rooms as at 31 December 2021

- (1) Underlying revenue per available room, Average room rate and Occupancy on a UK like-for-like basis for the management accounting period 26 Dec 2019 to 30 Dec 2020.
- (2) Our competitive segment is the Midscale and Economy Sector of the UK hotel market as reported by Smith Travel Research (STR), an independent hotel research provider, providing aggregate benchmarking information on the UK and other hotel market performance
- (3) EBITDA (adjusted) = Earnings before interest, tax, depreciation and amortisation, and before rent phasing adjustment⁽⁵⁾, non-underlying items and reflective of the position in line with historic accounting principles (before IFRS 16). This measure reflects the rent reductions following the CVA which completed on 19 June 2020, recognised in line with the cash benefit. Non-underlying items have been removed as they relate to non-recurring, one-off items. Refer to glossary for Alternative Performance measure definitions.
- (4) Underlying operating (loss) / profit before IFRS 16⁽⁶⁾ = Earnings before interest, tax and non-underlying items and reflective of the position in line with historic accounting principles (before IFRS 16⁽⁶⁾). Non-underlying items have been removed as they relate to non-recurring, one-off items.
- (5) Rent phasing adjustment = In many of our leases we receive a rent free period at the beginning of the lease term. According to the straight lining of leases principle under previous IFRS, the benefit of this rent free period is recognised gradually over the life of the lease in our income statement as a deduction to the actual rent expense in each year, on a straight line basis, over the full life of each lease, with the unrecognised balance being held as an accrual on our balance sheet. Similarly, any credit relating to the rent reductions resulting from the CVA is also recognised on a straight line basis over the remaining life of each lease. As a result, our total IFRS rent expense does not reflect our cash payments of rent in any year. EBITDA (adjusted) in each year recognises the portion of the rent free credit attributable to such year as if such credit were applied on a straight line basis until the next rent review, normally five years, and recognises the reductions resulting from the CVA in line with the actual rent paid in respect of each year. EBITDA (adjusted) is the measure used for internal management reporting. The rent phasing adjustment reflects the timing difference between the rent charge for the year in our internal management reporting measure EBITDA (adjusted) and the rent charge for the year under previous IFRS.
- (6) Before IFRS 16 = The performance under accounting principles prior to the adoption of IFRS 16.

Overview

Travelodge reinforced its position as a resilient business with a powerful brand throughout a challenging 2021. When Martin Robinson joined the business as Group Chairman in the Spring, many hotels were closed or trading only partially but the team steered the business through the rapid opening and closure of hotels at remarkable pace, kept employees and customers safe, navigated test and trace and the 'pingdemic' with remarkable efficiency and emerged in stronger shape than ever. Trading throughout the period when the business was trading relatively unimpeded - from July until the onset of Omicron before Christmas, was remarkably buoyant. The business continued to outperform the market for the seventh year in a row and enjoyed a record-breaking Summer.

On top of all that, Travelodge became the first major hotel chain to roll-out robotic vacuum cleaners across its entire estate. The team also undertook a significant customer research program, to understand guest requirements in a post-Covid world. The learning from this work will be incorporated into a major hotel refit program, which will include a new-look standard room, refreshed reception areas and a new style bar cafe. This refit program began in January 2022.

Trading so far in 2022 has been extremely encouraging, despite a slow start amidst the Omicron restrictions in January, and Martin Robinson remains optimistic that the business will once again prove resilient to all the challenges that are thrown at it and will enjoy a positive financial performance in 2022.

Performance Overview

2021 was significantly impacted by Covid-19 with restrictions in place for most of the first half of the year. We started the year with around 300 hotels open for essential business travel, with a gradual re-opening of the estate in line with demand over the following months, before the lifting of restrictions on leisure travel on 17 May 2021. Since then and following the lifting of all Covid-19 restrictions on 19 July we saw increasing demand, with high leisure demand in the summer period and strong recovery in "blue collar" demand offsetting the slower recover in "white collar" demand, until Omicron started to impact performance at the end of December.

The UK budget hotel market remains resilient, with revenue as a percentage of 2019 levels ahead of the total UK hotel market, driven by these strong levels of domestic leisure demand and a strong recovery in 'blue collar' business demand.

UK like-for-like RevPAR for the year ended 31 December was down 21.5% on 2019 levels, impacted by the restrictions in the first half, with the second half up 9.3%. Travelodge continued to outperform during the whole year, with like-for-like RevPAR approximately 10.8pts ahead of the Smith Travel Research (STR) Midscale and Economy (MSE) benchmark competitive segment.

Total underlying revenues for the year ended 31 December 2021 were down 22.4% on 2019 levels.

Costs remained well controlled and whilst Travelodge is not immune to the supply chain pressures affecting the wider hospitality industry, these were well managed, supported by our in-sourced housekeeping model and strong supplier relationships. We also benefited from the temporary reductions in rent under the terms of the CVA and from the government support available (mainly in the first half).

EBITDA (adjusted) for the year ended 31 December 2021 was a profit of £83.1m (2019: profit of £126.4m, 2020: loss of £70.4m).

Governance and the Group's Board

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

- Martin Robinson joined the Board as Chairman in March 2021 with the aim of bringing to bear his significant experience as a business leader in the leisure sector.
- Martin Robinson appointed Craig Bonnar, who had been interim CEO since the beginning of 2021, to the role of permanent CEO. Craig hit the ground running and has led the team with skill and courage through a challenging year.
- Ion Dagtoglou joined the Board as the Goldman Sachs nominated non-Executive Director and has made an immediate impact. He replaced Thomas Hilger, who had been a great supporter of the business during his tenure.
- Helen Normoyle also joined the Board in January 2022 as the Avenue Capital nominee and her deep experience in marketing and sustainability has already added value to the team. Jon Ford, the Avenue nominated Director, stood down from the Board on 1 January 2022 but will remain a Board Observer.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Outlook

Forecasting remains a challenge and we expect the pace of the recovery will depend on several factors including the continued effectiveness of the vaccines, consumer and business behaviour and more broadly the general economic and political environment.

The MSE segment continues to recover fastest, benefiting from its domestic focus, business/leisure mix and value proposition, and this trend is expected to continue through 2022. We expect 2022 to benefit from sustained 'blue-collar' business demand, and strong leisure demand, offsetting a more gradual recovery in 'white collar' corporate demand.

As such we are forecasting to at least return to 2019 RevPAR levels on average, although there is a range of potential outcomes. We do however face a number of cost headwinds, including the significant inflationary pressures facing the wider UK economy.

Our single largest cost, rent, benefited from temporary reductions of approximately £55m during 2021 and monthly rent payments under the CVA. The temporary rent reductions have now ended and we have returned to quarterly in advance payments on the majority of our leases. As a reminder the majority of our leases are either RPI or CPI based 5-yearly upwards only rent reviews with no caps or collars, although most newer leases do contain caps and collars, and the review pattern across all leases is spread broadly evenly over a 5 year period.

The Government has announced a 6.6% increase in the National Living Wage from 1 April 2022 and a 1.25% increase in employer National Insurance Contributions.

Operating costs will also be impacted by general inflationary increases, energy prices (although the majority of our forecast 2022 energy volumes are hedged) and some specific supplier price increases.

The situation in Ukraine may also affect cost pressures in the short-term and the total impact will depend on the duration of the crisis. However, with our domestic focus we are relatively less exposed in terms of demand.

So, while we expect to at least return to 2019 RevPAR levels in 2022, we are conscious of these cost pressures.

In 2021, we took the opportunity to conduct extensive customer research, which combined with our own learnings from the successful Travelodge PLUS hotels, has informed a new look standard room. This new look room is being rolled out as part of our refit programme, which recommenced in early 2022, and which also includes an improved reception offering customers a warm welcome and a new style bar café. We are also continuing our ongoing investment in hotel maintenance, IT, health & safety, development and projects, including energy efficiency.

We expect to open six new UK leased hotels in 2022, with two opened so far, as well as one Irish franchise. This is lower than our long run averages, as new deals were impacted by the pandemic, and we expect to return to more normal levels.

Overall Position

Whilst the macro-economic environment remains uncertain, the budget hotel segment has proven resilience and continues to recover ahead of the rest of the UK hotel market. With our large, diversified network of hotels, strong brand, direct distribution model, value proposition, customer mix and domestic travel focus, Travelodge is well positioned to benefit as demand builds and we are confident in the long-term prospects for budget hotels.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Our Business Model

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

We lease, franchise, manage and own 587 hotels and c. 44,000 rooms throughout the United Kingdom.

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

Historically, the performance of the UK hotel industry has correlated with the strength of the UK economy generally. Other macro-economic factors also influence the demand for hotel accommodation from domestic travellers, particularly business investment, employment levels, wages, consumer spending and consumer confidence. The performance of the UK hotel industry is also affected by the number of travellers coming to the United Kingdom from other countries. The UK hotel industry has been significantly impacted by the pandemic, and the pace of recovery will be impacted by consumer and business behaviour. The UK hotel industry is also not immune to the current wider macro-economic environment, including the well documented inflationary pressures, and the risks associated with the situation in Ukraine.

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

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

We operate multiple room formats across our hotels, namely our core standard rooms, twin, family and accessible rooms as well as our "premium economy" SuperRooms.

We estimate that we attracted approximately 16 million customers in 2021, compared to over 19 million in 2019 pre-pandemic and approximately 90% of our bookings were made through our direct channels, including our own website.

In 2021, we employed over 10,000 people across our hotels and support offices, the majority of whom are on hourly paid contracts and worked in our hotels when they were open, however, a significant proportion of our workforce was furloughed to some degree during the early months of the year as a result of the pandemic.

Within our largest market, the United Kingdom (representing 99% of our total revenue in the year ended 31 December 2021), we operated 43,530 rooms (or 99% of total rooms) in 577 hotels, with c. 21% of our rooms located in London and c. 77% located in regional areas across the United Kingdom. The majority of our rooms in the United Kingdom are leasehold, we also operated one hotel under a freehold and 10 hotels under management contracts in the United Kingdom. More than 94% of our UK revenue for the year ended 31 December 2021 was generated from accommodation, with the remainder from food and beverage and retail and other sales. In addition, we operated a further 833 rooms in 10 hotels under franchise in Ireland and Northern Ireland.

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

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

Following this initial modernisation of our core estate, in 2017 we commenced our normal Refit Upgrade Cycle, which expected to see all hotels receive refurbishment on a planned schedule over an expected seven to eight year cycle, with interim works in selected hotels with heavier usage patterns. We also led the industry with the launch of our "premium economy" room type, SuperRooms, adding that little bit more choice for customers, including a coffee machine, rain shower, choice of pillow and in-room hairdryer, iron and ironing board. As of 31 December 2021, we operated 2,108 SuperRooms in 60 hotels across the United Kingdom.

Who We Are

- UK's second largest hotel brand based on number of hotels and rooms
- Positioned in the attractive value segment with 587 hotels and serving c. 44,000 rooms
- 3 hotel formats offering customers choice
- Well balanced approximately even business / leisure customer split
- Almost 90% booking direct, with c. 80% through own websites
- Low upfront capex leasehold model

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

With our well invested estate we chose to temporarily pause our refit cycle following the onset of Covid-19. During 2021, we took the opportunity to undertake significant customer research to further inform our customer proposition. We recommenced our refit programme in early 2022 with a new look standard room, an improved reception offering a warmer welcome and a new style bar café.

The investments in our estate are supported by a consistently implemented standardised and disciplined approach to operations. We operate our hotels with a standardised room cleaning process, we have processes in place to monitor our customers' experience, we provide in-person and online training modules for our colleagues and we rigorously benchmark our performance by using internal customer surveys and external benchmarking, such as TripAdvisor surveys. At the start of the Covid-19 pandemic, we created TravelodgeProtect+, a programme of cleaning and social distancing measures, designed to keep our guests and colleagues safe and give everyone peace of mind.

Our strong physical assets and standardised operational processes have allowed us to continue to deliver high levels of customer satisfaction. As of December 2021, our UK hotels had an average TripAdvisor score of four dots out of five and in 2021 we received 324 TripAdvisor Traveller's Choice Awards, almost five times the number received in 2014. We were also recognised by TripAdvisor as one of its Top 10 Global "Most Excellent" Large Hotel Chains in 2018.

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

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

Strategic Progress

Our purpose is to provide affordable travel for everyone. We aim to offer our customers the right balance of location, price and quality to suit their travel needs.

Our strategy is to make Travelodge better for our key stakeholders – customers, colleagues and investors including shareholders, lenders, landlords and other creditors including key operational suppliers, local authorities and communities; and for the future, underpinned by our new “Better Future” sustainability strategy.

Customers

Location

We successfully opened 17 new hotels in 2021 further enhancing our network with a mix of both leisure and business focused locations.

At the end of 2021 our network stood at 587 hotels across the UK and Ireland.

We expect to open six new UK leased hotels in 2022, as well as one franchise in Ireland, with new deals impacted by Covid-19 in 2020, but we expect to return to more normal levels.

Price

We continue to invest in our revenue management systems and process and completed a major revenue management system upgrade in 2019, helping to support our track record of outperformance against the MSE segment. 2021 was significantly impacted by the pandemic, with restrictions in place for most of the first half of the year and then significant leisure demand in the second half, particularly over the summer and early autumn. We maintained highly competitive pricing throughout the year, which in conjunction with our revenue management capabilities enabled us to deliver LFL RevPAR performance ahead of both the MS&E segment and the market as a whole.

We have extended our choice of rates, with all bookings having a choice of both saver and fully flexible rates, including bed & breakfast and bed, breakfast and Wi-Fi bundles. As a result of Covid-19 all saver rate customers who were unable to stay due to government restrictions were offered either a refund or a voucher for the value of their stay, and those saver rate customers who decided to change their plans were able to do so with our usual amendment fee waived, that has since been reintroduced.

Quality

In the six years ended 2019, we had a significant drive to improve quality, investing in modernisation of our hotels, including 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, as well as a cyclical refit programme, and as a result we have a well invested estate. This programme continued during the first quarter of 2020, before being paused due to the pandemic.

During 2021 we took the opportunity to undertake significant customer research to further inform our customer proposition. Following this, we recommenced our refit programme in early 2022 with a new look standard room, an improved reception offering a warmer welcome and a new style bar café. Our new look standard room includes additional features such as blackout curtains, USB charging points by the bed, a comfortable armchair to relax in and an upgraded bathroom. This forms part of the refit programme going forwards, alongside a new welcoming reception and for our bar café hotels a new style format, offering a more flexible environment in which to eat, relax or work.

Our number one priority is the safety and security of our customers and colleagues. We aim to create an environment where everyone has peace of mind, so in 2020 we created TravelodgeProtect+, a programme of cleaning and social distancing measures, designed to keep our guests and colleagues safe. The programme was developed by a dedicated cross functional hygiene strategy team and has become the basis for our new way of working. We also continued our investments in cleaning with the roll-out of robot vacuums across the estate, helping to reduce the physical demands of the job for our colleagues, reducing our energy consumption and delivering cost efficiencies.

Supported by these initiatives and the work of over 10,000 colleagues across the country, our average TripAdvisor rating sits at 4 dots and we received 324 TripAdvisor Traveller’s Choice Awards, a decrease on the record 385 in 2020, we believe impacted by temporary changes to customer review patterns and the hotel closures as a result of Covid-19.

Colleagues

We want to create an inclusive workplace providing our colleagues with career opportunities, to learn skills for life and promoting health and wellbeing.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

We employ over 10,000 colleagues and are proud that our focus on equality and diversity has helped us to a leading position where the majority of our hotel managers are female. We are also ahead of the target of 33% female representation for diversity in senior leadership roles, as set out by the Hampton-Alexander review for FTSE 350 companies.

Investors

Our investors include our shareholders and lenders (owners of any financing arrangements we have, such as our bondholders), landlords and other creditors.

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

In addition to our normal day to day contact with our landlords, every six months we hold a call for our landlords, developers and key contacts from the property industry. This provides an update on the business as a whole and our progress on key property and development activity relevant to this stakeholder group.

Future

We have developed a comprehensive sustainability plan "Better Future" in conjunction with a wide range of stakeholders, that is designed to mark a step change in our sustainability agenda. Valuing our colleagues, customers and planet is the vision that underpins the three pillars of our sustainability plan:

- Inclusive: Ensuring Travelodge is accessible, inclusive, and affordable to its colleagues and customers
- Caring: Creating a safe and healthy environment for our colleagues and customers, and ensuring their wellbeing
- Conscious: Being conscious of the waste we produce, the energy and resources we consume, and our carbon emissions

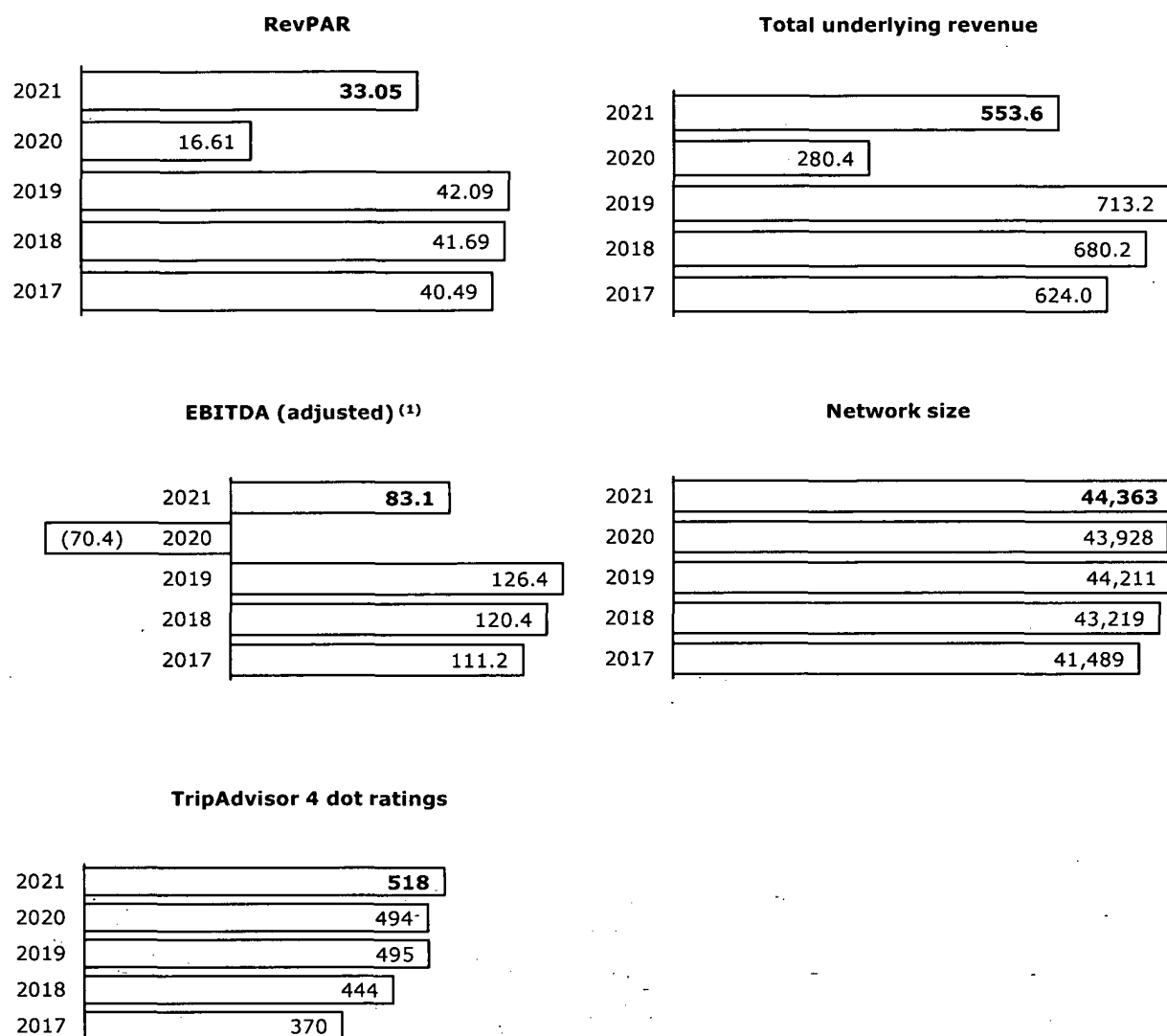
We have now introduced a Sustainability Committee that meets every quarter and is chaired by the Chief Financial Officer.

This is the first year we have published a separate sustainability report with further details on our "Better Future" sustainability plan set out in the Sustainability section of this report.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Key Performance Indicators



(1) EBITDA (adjusted) = Earnings before interest, tax, depreciation and amortisation, and before rent phasing adjustment, non-underlying items and reflective of the position in line with historic accounting principles (before IFRS 16). This measure reflects the rent reductions following the CVA which completed on 19 June 2020, recognised in line with the cash benefit. Non-underlying items have been removed as they relate to non-recurring, one-off items.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Results

Results for the Company are for the full year ended 31 December 2021, with comparatives for the full year ended 31 December 2020.

In addition to the statutory results which are presented under IFRS, we have also provided Alternative Performance Measures results ("APMs"), some of which exclude the impact of IFRS 16, as we believe these non-IFRS measures are useful metrics for investors to understand our results of operations, profitability and ability to service debt and we also use these measures internally to track our business performance, establish operational and strategic targets and make business decisions. We have also provided an analysis of the position in line with previous accounting principles ("Before IFRS 16") to align with measurement required under our financing arrangements which all contain 'Frozen GAAP'⁽¹⁾ provisions.

Please refer to the Glossary on pages 79 to 83 for reconciliations of the APMs to the statutory results.

Statutory Results

All of the figures in the commentary below are quoted on a statutory basis.

Revenue

Revenue increased by £280.1m, or 99.9%, from £280.4m for the year ended 31 December 2020 to £560.5m for the year ended 31 December 2021 (including £6.9m of non-underlying revenue (2020: nil)). Revenue was heavily impacted by the effects of the Covid-19 pandemic in both 2020 and 2021.

At the start of 2021 restrictions throughout the UK meant guests were only allowed to stay in hotels for work, education or other legally permitted reasons, but not for leisure purposes. We started the year with 354 UK hotels open and trading, with closures in the first couple of weeks reducing this to 293 by 15 January, ending the calendar month at 31 January with 295 open hotels. Batches were opened through February, March, April and May with all available hotels open by 17 May. Following the partial lifting of restrictions on 17 May 2021, with all restrictions lifted by 19 July 2021, demand and revenue improved through the year. Trading dipped in the festive period at the end of the year, with cancellations increasing on the news of the Omicron variant and the work from home guidance in the UK.

Conversely, in the comparative year Travelodge started 2020 strongly, delivering good revenue growth before Covid-19 began to impact the business from March 2020, with the first closure of our UK hotels mandated from 24 March, which eventually came to an end on 15 July 2020. While 51 hotels remained open during the first lockdown period as part of our commitment to support NHS workers, key workers and vulnerable groups, these contributed negligible net income and overall revenues throughout the second quarter of 2020 were virtually eliminated. A phased reopening of our hotels was undertaken during a six to seven week period from early July 2020 to the middle of August 2020, with the effects of the pandemic continuing to heavily impact the third quarter of 2020. The imposition of new tier restrictions throughout the UK in the final quarter saw further hotel closures, with guests only allowed to stay in hotels for work, education or other legally permitted reasons, but not for leisure purposes.

Revenue included £6.9m (2020: £nil) of non-underlying income relating to the release of expired vouchers issued in relation to cancelled stays during periods of lockdown.

Operating expenses (excluding depreciation, amortisation and impairment)

Operating expenses increased by £28.5m, or 10.0%, from £284.8m for the year ended 31 December 2020 to £313.3m for the year ended 31 December 2021. We continued to manage costs tightly as the impact of the pandemic continued, resulting in a lower ratio of operating expenses relative to revenue compared to 2020.

Increases in cost of sales were mainly due to higher laundry costs driven by occupancy levels.

Employee cost increases of £12.3m from £156.8m for the year ended 31 December 2020 to £169.1m for the year ended 31 December 2021 reflect a reduction in the use of the government's job retention scheme, the impact of the National Living Wage increase in the like-for-like estate and the additional staff in our new and maturing hotels.

Other operating expenses (before non-underlying items) increased by £25.7m from £95.3m for the year ended 31 December 2020 to £121.0m for the year ended 31 December 2021. This was driven by improved trading from hotel re-openings, increased costs from new and maturing hotels and reduced hospitality business rates benefits of c. £21m (2020: c. £29m), partially offset by savings from cost efficiency programmes and business grants of c. £10m (2020 c. £1m).

In addition, non-underlying items⁽¹⁾ relating to operating expenses were a £3.3m credit for the year ended 31 December 2021 compared to charges of £15.6m for the year ended 31 December 2020. The £3.3m credit for 2021 related to a provision reassessment. The £15.6m charges for the year ended 31 December 2020 related to legal and professional fees in connection with the initial landlord consensual proposal, subsequent CVA and other corporate activity, the establishment of a £1m compromised creditor fund following the CVA and management incentives.

(1) Refer to definition under the Alternative Performance Measures section.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Rent

Net rent receivable increased by £1.3m, from £2.7m for the year ended 31 December 2020 to £4.0m for the year ended 31 December 2021, mainly reflecting a reduction in rent concessions offered to sub-tenants during the pandemic compared to 2020.

Other Income

Other income decreased by £25.6m, or 54.4%, from £47.1m for the year ended 31 December 2020 to £21.5m for the year ended 31 December 2021, primarily due to reduction in the government's job retention scheme. Claims of c. £21m (2020 c. £45m) were made in respect of the government's job retention scheme in the year.

Depreciation, amortisation and impairment

Depreciation decreased by £2.3m from £144.2m for the year ended 31 December 2020 to £141.9m for the year ended 31 December 2021, due to the modification of the right of use assets, reflecting the impact of the CVA, together with the impairment charge against a small number of assets at the end of 2020. In addition, in response to the onset of Covid-19 we deferred our normal capital refit programme and limited non-essential capital expenditure. Amortisation of IT software increased by £0.4m to £5.1m for the year ended 31 December 2021, due to the increased investment in IT systems assets.

Impairment charges reflect a £0.3m impairment of right of use assets, intangible assets, property, plant and equipment compared with a charge of £8.7m for the year ended 31 December 2020.

Finance costs

Finance costs increased by £17.9m, or 9.8%, from £183.2m for the year ended 31 December 2020 to £201.1m for the year ended 31 December 2021.

Interest on lease liabilities was a cost of £182.3m for the year ended 31 December 2021, up £8.8m, or 5.1% from £173.5m for the year ended 31 December 2020. The increase was mainly due to the CVA related reassessment of leases together with new leases over the year. The liabilities for all leases affected by the CVA were recalculated at June 2020, following the CVA rent reductions, including a reassessment of notional interest rates, which at that point, largely as a result of the pandemic, were higher than the rates used in the original calculations.

Bank interest costs increased from £2.5m for the year ended 31 December 2020 to £7.7m for the year ended 31 December 2021, following the full drawdown of £40m under the pre-existing revolving credit facility on 17 March 2020 and the term loan facility of £60m in December 2020, which replaced the £60m super senior revolving credit facility issued in April 2020 which was drawn down by £30m in June 2020 and repaid in December 2020.

Finance fees incurred in 2020 included a £0.5m non-underlying charge for the write off of the unamortised portion of a 'take and hold fee' on repayment of the revolving credit facility.

Finance income

Finance income of £21.6m for the year ended 31 December 2021, up £4.4m from £17.2m for the year ended 31 December 2020, principally related to interest from Group undertakings.

Other gains

Non-underlying other gains of £85.7m for the year ended 31 December 2020 related to the compromise of the intercompany liability with Full Moon Holdco 6 as agreed in the CVA.

Loss Before Tax

Statutory loss before tax was £33.8m for the year ended 31 December 2021, £127.4m better than the loss of £161.2m for the year ended 31 December 2020, benefitting mainly from the improvement in revenue as a result of relaxing of Covid-19 restrictions and reduced hospitality VAT rates.

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 underlying income tax charge of £nil for the year ended 31 December 2021 (current tax charge: £nil; deferred tax charge: £nil). There was an overall income tax charge of £6.4m for the year ended 31 December 2020 (current tax charge: £nil; deferred tax charge: £6.4m).

There was a non-underlying tax charge of £4.0m in the year ended 31 December 2021 in respect of a provision set up for the estimated liability arising from settlement of an ongoing HMRC enquiry into prior periods.

No cash tax payments were made during the year (2020: £nil).

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Alternative Performance Measures and Before IFRS 16 Results

The table below reconciles the non-IFRS Alternative Performance Measures, including EBITDA (adjusted), and the position in line with previous accounting principles ("Before IFRS 16") to the Statutory Results:

	2021			2020			Variance 2021 vs 2020	
	Before IFRS 16 ⁽¹⁾ £m	IFRS 16 impact £m	Total £m	Before IFRS 16 ⁽¹⁾ £m	IFRS 16 impact £m	Total £m	IFRS 16 ⁽¹⁾ £m	Var %
Key income statement items								
Revenue	553.6	-	553.6	280.4	-	280.4	273.2	97.4%
Operating expenses	(316.6)	-	(316.6)	(269.2)	-	(269.2)	(47.4)	(17.6)%
Of which cost of goods sold	(26.5)	-	(26.5)	(17.1)	-	(17.1)	(9.4)	(55.0)%
Of which employee costs	(169.1)	-	(169.1)	(156.8)	-	(156.8)	(12.3)	(7.8)%
Of which other operating expenses	(121.0)	-	(121.0)	(95.3)	-	(95.3)	(25.7)	(27.0)%
Net external rent (payable) / receivable	(175.3)	179.3	4.0	(127.3)	130.0	2.7	(48.0)	(37.7)%
Other income	21.4	0.1	21.5	45.7	1.4	47.1	(24.3)	46.8%
EBITDA (adjusted)⁽²⁾	83.1 ⁽²⁾	179.4	262.5 ⁽³⁾	(70.4) ⁽²⁾	131.4	61.0 ⁽³⁾	153.5	218.0%
Rent phasing adjustment ⁽⁴⁾	(44.0)	44.0	-	(79.8)	79.8	-	35.8	44.9%
Depreciation	(41.0)	(100.9)	(141.9)	(36.4)	(107.8)	(144.2)	(4.6)	(12.6)%
Amortisation	(16.1)	11.0	(5.1)	(16.0)	11.3	(4.7)	(0.1)	(0.6)%
Operating profit / (loss) (before non-underlying items)	(18.0)	133.5	115.5	(202.6)	114.7	(87.9)	184.6	91.1%
Finance costs	(20.6)	(180.5)	(201.1)	(12.9)	(169.8)	(182.7)	(7.7)	(59.7)%
Finance income	21.6	-	21.6	17.2	-	17.2	4.4	25.6%
Loss for the year (before non-underlying items)	(17.0)	(47.0)	(64.0)	(198.3)	(55.1)	(253.4)	181.3	91.4%

- (1) Before IFRS 16 - The additional columns added reflect performance under accounting principles prior to the adoption of IFRS 16, referred to elsewhere in this report as Alternative Performance Measures, which include EBITDA (adjusted) and clarify the adjustments required under IFRS 16.
- (2) EBITDA (adjusted) = Earnings before interest, tax, depreciation and amortisation, and before rent phasing adjustment, non-underlying items and reflective of the position in line with the historic accounting principles (before IFRS 16). This measure reflects the rent reductions following the CVA which completed on 19 June 2020, recognised in line with the cash benefit. Non-underlying items have been removed as they relate to non-recurring, one-off items.
- (3) Formerly "EBITDA (statutory)" = Earnings before interest, tax, depreciation, amortisation and non-underlying items and after variable lease payments and rental income. As shown on the Income Statement on page 48.
- (4) Rent phasing adjustment = The rent phasing adjustment reflects the timing difference between the rent charge for the year in our internal management reporting measure EBITDA (adjusted) and the rent charge for the year under previous IFRS. In many of our leases we receive a rent free period at the beginning of the lease term. According to the straight lining of leases principle under previous IFRS, before IFRS 16, the benefit of this rent free period is recognised gradually over the life of the lease in our income statement as a deduction to the actual rent expense in each year, on a straight line basis, over the full life of each lease, with the unrecognised balance being held as an accrual on our balance sheet. Similarly, any credit relating to the rent reductions resulting from the CVA is also recognised on a straight line basis over the remaining life of each lease. As a result, our total before IFRS 16 rent expense does not reflect our cash payments of rent in any year. EBITDA (adjusted) in each year recognises the portion of the rent free credit attributable to such year as if such credit were applied on a straight line basis until the next rent review, normally five years, and recognises the reductions resulting from the CVA in line with the actual rent paid in respect of each year. EBITDA (adjusted) is the measure used for internal management reporting.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

The commentary below on pages 13 to 14 is on an Alternative Performance measure basis. The Glossary on pages 79 to 83 provides full definitions and reconciliations to the IFRS measures.

Revenue before non-underlying items

Revenue before non-underlying items increased by £273.2m, or 97.4%, from £280.4m for the year ended 31 December 2020 to £553.6m for the year ended 31 December 2021. Revenue was heavily impacted by the effects of the Covid-19 pandemic in both 2020 and 2021.

At the start of 2021 restrictions throughout the UK meant guests were only allowed to stay in hotels for work, education or other legally permitted reasons, but not for leisure purposes. We started the year with 354 UK hotels open and trading, with closures in the first couple of weeks reducing this to 293 by 15 January, ending the calendar month at 31 January with 295 open hotels. Batches were opened through February, March, April and May with all available hotels open by 17 May. Following the partial lifting of restrictions on 17 May 2021, with all restrictions lifted by 19 July 2021, demand and revenue improved through the year. Trading dipped in the festive period at the end of the year, with cancellations increasing on the news of the Omicron variant and the work from home guidance in the UK.

Conversely, in the comparative year Travelodge started 2020 strongly, delivering good revenue growth before Covid-19 began to impact the business from March 2020, with the first closure of our UK hotels mandated from 24 March, which eventually came to an end on 15 July 2020. While 51 hotels remained open during the first lockdown period as part of our commitment to support NHS workers, key workers and vulnerable groups, these contributed negligible net income and overall revenues throughout the second quarter of 2020 were virtually eliminated. A phased reopening of our hotels was undertaken during a six to seven week period from early July 2020 to the middle of August 2020, with the effects of the pandemic continuing to heavily impact the third quarter of 2020. The imposition of new tier restrictions throughout the UK in the final quarter saw further hotel closures, with guests only allowed to stay in hotels for work, education or other legally permitted reasons, but not for leisure purposes.

Like-for-like UK RevPAR⁽¹⁾ for the year improved by 99.0% compared to 2020 (down 21.5% against 2019), like-for-like occupancy⁽¹⁾ increased by 21.8pts compared to 2020 (down 18.0pts against 2019) and like-for-like average room rates⁽¹⁾ were 29.7% higher compared to 2020 (1.1% higher than 2019).

Operating expenses before non-underlying items (excluding depreciation, amortisation and non-underlying items)

Operating expenses before non-underlying items increased by £47.4m, or 17.6%, from £269.2m for the year ended 31 December 2020 to £316.6m for the year ended 31 December 2021. We continued to manage costs tightly as the impact of the pandemic continued, resulting in a lower ratio of operating expenses relative to revenue compared to 2020.

Increases in cost of sales were mainly due to higher laundry costs driven by occupancy levels.

Employee cost increases of £12.3m from £156.8m for the year ended 31 December 2020 to £169.1m for the year ended 31 December 2021 reflect less hotel closures and increased occupancy, the impact of the National Living Wage increase in the like-for-like estate and the additional staff in our new and maturing hotels.

Other operating expenses increased by £25.7m from £95.3m for the year ended 31 December 2020 to £121.0m for the year ended 31 December 2021. This was driven by improved trading, increased costs from new and maturing hotels and reduced hospitality business rates benefits of c. £21m (2020: c. £29m), partially offset by savings from cost efficiency programmes and business grants of c. £10m (2020 c. £1m).

Other Income before IFRS 16⁽²⁾

Other income before IFRS 16⁽²⁾ of £21.4m (2020: £45.7m) for the year ended 31 December 2021 predominantly relates to the government's job retention scheme. Claims of c. £21m (2020 c. £45m) were made in respect of the government's job retention scheme in the year.

(1) Revenue per available room (RevPAR) on a UK like-for-like⁽³⁾ basis for the management accounting period 31 December 2020 to 29 December 2021.

(2) Before IFRS 16 = The performance under accounting principles prior to the adoption of IFRS 16.

(3) Refer to definition under the Alternative Performance Measures section.

Net external rent payable⁽¹⁾

External rent payable⁽¹⁾ (before rent phasing adjustment and before IFRS 16⁽²⁾) reflects the rental amounts due for the period, adjusted to spread the benefit of rent free periods over the period to the next rent review date and recognises the reductions resulting from the CVA in line with the actual rent paid in respect of each year.

Net external rent payable⁽¹⁾ (before rent phasing adjustment and before IFRS 16⁽²⁾) increased by £48.0m, or 37.7%, from £127.3m for the year ended 31 December 2020 to £175.3m for the year ended 31 December 2021. In 2020 rent was paid in full for the first quarter before the impact of the Covid-19 pandemic. Significant rent reductions were agreed for the remainder of 2020 (c. £85m) and 2021 (full year c. £55m) as part of the CVA in June 2020. Whilst we continued to benefit from the rent reductions in 2021, these reductions were lower than those in 2020. The impact of new hotels, together with upwards only rent reviews predominantly linked to RPI in the like-for-like estate, also contributed to the increase in rent payable.

In many of our leases we receive a rent free period at the beginning of the lease term. Within EBITDA (adjusted) the portion of the rent free credit attributable to each year is recognised as if such credit were applied on a straight line basis until the next rent review, normally five years. The credit attributable to the reductions resulting from the CVA is recognised in line with the actual rent paid in respect of each year. EBITDA (adjusted) is the measure which is used for internal management reporting.

According to the straight lining of leases principle under previous IFRS, the benefit of a rent free period is recognised on a straight line basis over the full life of the lease. Similarly, any credit relating to the rent reductions resulting from the CVA is also recognised on a straight line basis over the remaining life of each lease. The rent phasing adjustment reflects the timing difference between the rent charge for the year in our internal management reporting measure EBITDA (adjusted) and the rent charge for the year under previous IFRS.

Depreciation / amortisation before IFRS 16⁽²⁾

Depreciation before IFRS 16⁽²⁾ increased by £4.6m, or 12.6%, from £36.4m for the year ended 31 December 2020 to £41.0m for the year ended 31 December 2021. Depreciation is driven mainly by ongoing investment in the refurbishment of our estate including health and safety measures, energy efficiency projects, IT hardware and new hotel openings.

Amortisation before IFRS 16⁽²⁾ is driven mainly by historic lease premiums, investment in IT systems (where this results in an intangible asset) and new openings, and increased by £0.1m, or 0.6%, from £16.0m for the year ended 31 December 2020 to £16.1m for the year ended 31 December 2021. Increases from the amortisation of investments in IT systems were partially offset by reductions due to the impairment of historic lease premiums for a small number of assets at the end of 2020.

Finance costs before IFRS 16⁽²⁾

Finance costs before IFRS 16⁽²⁾ increased by £7.7m, or 59.7%, from £12.9m for the year ended 31 December 2020 to £20.6m for the year ended 31 December 2021. This increase was primarily due to higher bank interest costs following the full drawdown of £40m under the pre-existing revolving credit facility in March 2020 and the new term loan of £60m which was part of the refinancing in December 2020, replacing the £60m super senior revolving credit facility issued in April 2020 which was drawn down by £30m in June 2020, partially offset by lower interest on finance leases following the surrender of a property lease in June 2020.

Finance income

Finance income of £21.6m for the year ended 31 December 2021, up £4.4m from £17.2m for the year ended 31 December 2020, principally related to interest received from Group undertakings.

(1) Refer to definition under the Alternative Performance Measures section.

(2) Before IFRS 16 = The performance under accounting principles prior to the adoption of IFRS 16.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Funding, Covenant Compliance & Going Concern

The Group of companies that Travelodge Hotels Limited is a subsidiary of ("the Group") has the following funding structure:

	2021 £m	2020 £m
External debt redeemable:		
- Senior secured fixed rate bond	(65.0)	(65.0)
- Senior secured floating rate bond	(440.0)	(440.0)
- Issue costs	7.9	10.2
Senior secured bond related debt	(497.1)	(494.8)
- Super senior term loan	(63.1)	(61.9)
- Issue costs	2.7	3.8
Super senior term loan related debt	(60.4)	(58.1)
Revolving credit facility	(40.0)	(40.0)
Secured debt	(597.5)	(592.9)
Cash	142.8	136.2
External net debt	(454.7)	(456.7)
Investor loan notes (unsecured)	(186.6)	(166.4)
Net funding (excluding lease liabilities)	(641.3)	(623.1)
Lease liabilities	(2,402.7)	(2,347.8)
	<u>(3,044.0)</u>	<u>(2,970.9)</u>

Senior secured notes

Senior secured floating rate sterling denominated notes of £440m were issued on 5 July 2019 with a termination date of 15 July 2025. Interest was floating at three month LIBOR plus a margin of 5.375%. Interest is payable quarterly each January, April, July and October. The notes may be redeemed at any time on or after 15 July 2020, at par. As a result of the Bank of England's discontinuation of LIBOR from 2022, certain amendments have been agreed with all relevant counterparties to effectuate a reference rate transition from LIBOR to Sterling Overnight Index Average (SONIA) including margin adjustments in respect of the period from the commencement date of the first interest period commencing on or after 31 December 2021 to the maturity date.

On 18 December 2020, new senior secured fixed rate sterling denominated notes of £65m were issued with a termination date of 15 January 2025. Interest was fixed at 9% and payable on a semi-annual basis.

Further loan issue costs of approximately £3.8m will be amortised over the life of the facility in accordance with IFRS.

Revolving credit facility and super senior term loan

As part of the refinancing on 5 July 2019, the revolving credit facility ("RCF") was reduced from £50m to £40m and the letter of credit ("LOC") facility of £30m was retained, with the springing covenant trigger point being increased to 40% utilisation of the full original £80m RCF/LOC facility, so drawings of £32m or more. The facility was also extended from April 2022 until July 2024. At the balance sheet date, the £40m revolving credit facility was fully drawn.

In May 2020, the RCF/LOC facility was amended with the net leverage financial covenant for the relevant quarter end testing periods from 30 June 2020 until and including 30 June 2021 being replaced by a minimum liquidity covenant. This was extended on 29 September 2021 to provide a financial covenant holiday until 31 December 2021 and extend the liquidity testing period until 30 June 2022. The minimum liquidity covenant requires that available liquidity is not lower than £10m for any period of five (5) consecutive business days.

At 31 December 2021, letters of credit were in issue to the value of £27.7m (2020: £24.3m), but not called upon (and so not utilised for the purposes of the springing covenant trigger).

On 20 April 2020, the Group entered into a super senior £60m revolving credit facility agreement with certain financial institutions that are indirect shareholders (or affiliates thereof), available to the Group until May 2022.

The proceeds of the new facility were used to fund our general corporate and working capital requirements. Fees and interest were payable in kind and were contingent on an initial drawdown. There were various conditions precedent to funding, including a requirement to obtain a rent payment agreement with landlords of the Group.

A 'take and hold' fee of £0.6m was incurred in respect to the initial drawdown of £30m. This fee was capitalised and deemed to form a new loan under the facility and was being amortised over the life of the facility in line with generally accepted accounting practice.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

On 16 November 2020, the Group entered into an amended and restated agreement in the form of a super senior term loan of £60m, available to the Group until July 2024.

On 1 December 2020, the Group repaid both the initial drawdown on the super senior revolving credit facility of £30m and the related 'take and hold' fee of £0.6m, as well as accrued interest of £1.3m. On the same date, the new super senior term loan of £60m was drawn in full.

An OID fee of £1.9m was incurred in respect to the drawdown of £60m. This was paid in January 2022. This fee has been capitalised and deemed to form a new loan under the facility and is being amortised over the life of the facility in line with generally accepted accounting practice.

Loan issue costs of approximately £2.0m will be amortised over the life of the facility in line with generally accepted accounting practice.

In addition, on 24 August 2020 and 2 December 2020, the Group entered into additional investor loan note agreements of £10m and £30m respectively, with a termination date of 2033. The original investor loan note of £95m has a termination date of January 2026.

Going concern

In assessing the appropriateness of the going concern assumption, the Board has considered the possible cash requirements of the Company to the end of 2023, taking into account the impact of the pandemic, current economic and political pressures, the range of trading outcomes and mitigating actions which could be taken.

Availability of funding

As at 22 April, drawings under the Company's existing £40m revolving credit facility ("RCF") were £32m and revised covenant terms with its banking partners.

Under the revised covenant terms, the Group's existing springing covenant requirements, which apply if drawings under the RCF are £32m or more, are not tested and have been replaced with maintenance covenants from 31 March 2022 to 30 June 2023, comprising stepped quarterly net leverage tests and minimum liquidity covenants, after which the business returns back to the previous quarterly net leverage covenant tests, the first of which would be on 30 September 2023.

Base case scenario

The base case assumes that our hotels remain open for trading and continue to experience RevPAR recovery broadly in line with the latest available external forecasts, with RevPAR across 2022 assumed to be on average back to 2019 levels, and total revenue up 3% driven by new openings since 2019. Revenue for 2023 is modelled to grow by a further 5%.

We consider the base case to be a conservative assessment in light of current trading performance and there are a number of potential upsides and mitigations that have not been included, such as the potential for additional demand from our predominantly domestic customer base, in particular leisure demand and price increases to mitigate the impact of inflation on costs.

Under this base case scenario, the Company is expected to continue to have significant headroom relative to the total funding available to it and to comply with banking covenants where applicable.

Severe but plausible downside scenarios

Our performance will be closely linked to the recovery, the potential future impact of Covid-19 on customer behaviour and the current economic and political uncertainty. The Board has therefore considered various other severe but plausible downside scenarios, including the possibility that inflation is significantly higher than the base case and that corporate demand is slower to recover.

These downsides scenarios have the following impacts:

- Higher inflation – in the event that RPI and CPI were 8% and 7% respectively for 2022, then reducing to 5% and 4% in 2023, the Group would still maintain significant headroom. Our base forecast includes contractually agreed costs for the key cost of sales categories, laundry and food, it also includes the impact of the current available forecasts for National Living Wage increases. Our energy costs are fully hedged to March 2023 and rent increases are driven predominantly by inflation linked reviews. Each lease reviewed on a five-yearly cycle and this review cycle for the estate is broadly spread evenly over a five-year period, the impact against the base case to the end of 2023 is therefore limited.
- Slower corporate recovery – in the event that the assumed recovery in 'white collar' demand, serviced predominantly through our corporate sales channels, is slower than our base forecast the Group would still maintain significant headroom. This scenario assumes corporate revenue is c. 18% further below 2019 levels compared to the base scenario, with RevPAR back c. 2% on 2019 levels in 2022.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

In these severe but plausible downside scenarios, either individually or in combination, and before potential mitigation which could reasonably be expected to be available, the group retains sufficient liquidity and would not breach covenants.

Conclusion

Based on the above scenarios, taking account of reasonably possible changes in trading performance, the directors believe that it remains appropriate to adopt the going concern basis in preparing the financial statements.



Jo Boydell
Chief Financial Officer

22 April 2022

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Note that the Directors of the Company are a subset of the Board of Directors of the Group, therefore the Group strategic direction is applicable to the Company.

Section 172 Statement

In accordance with section 172 of the UK Companies Act 2006, in its decision making the Board considers the interests of the Group's employees and other stakeholders.

Some examples of how the Board considers these groups during Board meetings and discussions include the following:

- As part of the monthly Key Performance Indicators (KPI) pack, the Board considers data relating to customer feedback and team retention.
- The CFO report gives details on recent lender discussions.
- There have been regular updates as our Better Future strategy has been developed, including development of the targets and KPIs and ongoing progress will be reported regularly.
- The CEO report gives details of any relevant employee related matters, and landlord and other supplier interaction.

The Board also takes into consideration the long-term consequences for both the Company and its stakeholders when making key decisions, making sure the Company conducts its business in a fair way, protecting its reputation and external relationships.

This section provides some examples of decisions taken by the Board this year, and how stakeholder views and interests, as well as other section 172 considerations, have been taken into account in its decision making.

Read more about our stakeholder engagement on pages 19 and 20

Colleagues

Health and safety measures

The Board was fully briefed on and supportive of the hygiene, cleaning and social distancing measures taken, both at hotels and the Support Centre, to ensure the safety of our employees.

Your Voice, the Travelodge Shadow Board and our Equality and Diversity Group

We use an employee engagement survey, the Travelodge Shadow Board consisting of 12 team members from across the business who have discussions with senior leaders, including the CEO, about shaping business plans and influencing decisions, as well as our Equality and Diversity Group which considers a wide range of topics relating to initiatives and policy.

For more information, see pages 19 to 20

Customers

Health and safety measures

The Board was fully briefed on and supportive of the hygiene, cleaning and social distancing measures taken, to ensure the safety of our customers when they visited our hotels and bar cafes.

Refit

During 2021 we took the opportunity to undertake significant customer research to further inform our customer proposition, the results of which have informed our new look standard room, improved reception and new style bar café.

Landlords and Other Suppliers

The Board was mindful of the support from our landlords and other suppliers and made payments in line with agreements and credit terms.

Lenders

The Board was fully updated on the negotiations and the support that it received from our lenders in reaching agreements around the covenant amendments.

Better Future

During the year, the Board approved our new sustainability strategy, including PIs and targets.

For more information see pages 21 to 33.

Stakeholder Engagement

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

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

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

The Wates Corporate Governance Principles for Large Private Companies provides a framework for the Group to demonstrate how the Board of Thame and London Limited ("the Board") makes decisions for the long term success of the company and its stakeholders, as well as having regard to how the Board ensures the Group complies with its requirements of Section 172 of the Companies Act 2016. The Company adopted the Wates Principles during 2019. Our reporting against the Wates Principles has been included on page 39 to 41 and should be read in conjunction with the information on the stakeholder Groups discussed below.

Our Customers

Prior to the impact of Covid-19 we would typically serve approximately 19 million customers, across the UK and our other markets. We aim to engage extensively to understand customer needs and trends and to get feedback on their stays with us. During the year we could reopen our hotels in line with changing regulation from each of the devolved UK governments. We also needed to ensure that our hotels, when open and trading, were safe to operate for both our customers and team members. We provided regular updates on a dedicated Covid-19 page of our website and communicated Travelodge Protect+ across social media channels.

We have maintained regular lines of communication with our customers to ensure they are kept up to date with which hotels are open, and to clarify the government restrictions in place and how they apply to each customer segment, via emails, social media and sales team activity.

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

Our Colleagues

We employ over 10,000 colleagues and gather extensive feedback from them throughout the year from a range of sources.

We carry out an engagement survey annually covering a range of topics from opportunities to develop skills and a career at Travelodge to confidence in the Group's senior leadership. The results, which include thousands of verbatim comments and ideas, help to inform our agenda for the long term as well as highlighting any immediate issues that might require our focus. The Board considers the results of our employee survey a good barometer of the team's confidence in the Group's strategic direction.

The Travelodge Shadow Board meets twice during the year. Comprising twelve members, from the numerous roles within hotels and a representation from our head office teams, it is chaired by the Chief Executive. The Shadow Board is a forum for the Chief Executive to gather direct input from all levels and roles in the organisation on key strategic and operational topics under discussion by him and his operating board team.

We communicate regularly with our teams through a series of leadership meetings, Head Office 'Town Halls', and regional and district operational meetings. Our Chief Operating Officer personally leads feedback sessions with members of her District Manager team to ensure she is close to the feedback on any change initiative impacting our hotels.

This management communication is augmented with a communication App accessible to all colleagues across the business. It is used to highlight key messages and news from the management team as well as content and news created by any of our colleagues through posts, pictures, videos, comments and questions. The site can receive hundreds of updates each day and is a vibrant representation of our teams and what they are thinking, feeling and doing.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

We also operate an Equality and Diversity Group that recognises the benefits of having a diverse workforce with different backgrounds, solely employed on ability. The Group meets quarterly and considers a wide range of topics relating to initiatives and policy. In 2021 we initiated conversations on LGBTQ+, the menopause, and women and career progression at Travelodge. All of these conversations remain live and current.

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

Our Investors

Our investors include our shareholders, lenders, landlords and other creditors including key operational suppliers, local authorities and communities.

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

In addition to our normal day to day contact with our landlords, every 6 months we host a call for our landlords, developers, and key contacts from the property industry. Normally following on from the bond call, this provides an update on the business as a whole and our progress on key property & development initiatives relevant to this stakeholder group.

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

Travelodge continues to work with Local Authorities and Real Estate partners to explore opportunities to help in regeneration and job creation through its new hotel development programme.

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

Sustainability

Travelodge seeks to be a responsible business in all we do. We have always placed a strong emphasis on safety and security, the environment, and our social responsibilities. However, we know that there is more we need to do. We also know that, until now, we haven't routinely shared what we are doing with our stakeholders.

Following extensive consultation with a wide range of stakeholders, we have developed a comprehensive sustainability plan 'Better Future' designed to mark a step-change in our sustainability agenda. The plan will help us to both improve focus and performance, and to share that progress transparently with our stakeholders.

We firmly believe that sustainability has a critically important role to play in shaping the future of our business. For that reason, our sustainability plan 'Better Future' is closely aligned with our Purpose, to provide affordable travel for everyone and integrated with our wider business strategy. This is the first year we have published a separate sustainability report which contains more detailed information.

Our sustainability plan 'Better Future'

Valuing our colleagues, customers and planet is the vision that underpins the three pillars of our sustainability plan.

1. **Inclusive:** Ensuring Travelodge is accessible, inclusive, and affordable to its colleagues and customers.
2. **Caring:** Creating a safe and healthy environment for our colleagues and customers, and ensuring their wellbeing.
3. **Conscious:** Being conscious of the waste we produce, the energy and resources we consume, and our carbon emissions.

Our Better Future overview

Vision	Valuing our colleagues, customers and planet		
	Inclusive	Caring	Conscious
Strategic objectives	Ensuring we are accessible, inclusive and affordable to our colleagues and customers.	Creating a caring and healthy environment for our colleagues and customers and ensuring their wellbeing.	Being actively conscious of the waste we produce, the energy and resources we consume and our carbon emissions.
Material sustainability topics covered	<ul style="list-style-type: none"> • Training & development opportunities • Customer accessibility • Fair labour practices and decent work • Diversity & inclusion • Social mobility 	<ul style="list-style-type: none"> • Data security & customer privacy • Human trafficking & child abuse prevention • Health, safety & wellbeing • Charity partnerships • Wellbeing 	<ul style="list-style-type: none"> • Responsible sourcing & supply chain management • Carbon emissions and energy management • Waste management & recycling • Adapting to climate change • Water consumption • Business ethics

Priorities

While we have already made good progress in a number of areas, there is still a lot to do. We appreciate that no organisation can do everything at once, so initially we will be focusing on the following priorities over the next 12 months. We intend to refresh this report at least annually and include its content within our Annual Report & Financial Statements:

Inclusive

- Diversity & inclusion - everyone should feel welcome and part of the Travelodge team.
- Social mobility - allow people to learn more, earn more, and belong.

Caring

- Wellbeing - improve the physical, emotional, financial and work wellbeing of our colleagues.
- Charity - support our charity partners, Pennies and the British Heart Foundation.

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Conscious

- Net zero - reduce our energy consumption through projects, migrate our residual supply to green sources and/or find ways to offset any remainder.
- New builds and our refit programme - build our new hotels and refurbish our existing hotels with sustainability as a key consideration.

Measuring our progress

In order to stretch and challenge ourselves, the plan includes KPIs (Key Performance Indicators) and targets. We will measure our performance against these KPIs on a quarterly basis. We will report that performance internally on a quarterly basis and externally.

Better Future

We appreciate that the language of sustainability can be complex, and that not everyone has the time, or the inclination, to read detailed reports on the subject. However, that doesn't mean that they don't care about the environment, people, or local communities.

It doesn't help that the terminology changes. Sustainability, ESG, CSR and sometimes CR are all used interchangeably by companies. In essence, they all refer to doing business in an ethical and responsible way that takes into account the needs of a wide range of stakeholders, including society and the environment.

In order to make sure that we share our progress in a way that's quick and easy to understand, we developed 'Better Future', as a way of setting out everything we're doing. While we will continue to report on our performance, in this Sustainability Report and our Annual Report & Financial Statements, we will also include sustainability updates under 'Better Future' in any communications to colleagues, customers and other stakeholders.

Glossary

- **Sustainability:** In a corporate context, sustainability refers to the effect a business has on the environment, and on society, with the goal of having a positive impact in at least one of those areas.
- **ESG** - Environment, Social & Governance
- **CSR** - Corporate Social Responsibility
- **CR** - Corporate Responsibility
- **Governance:** The system by which a company is directed or controlled.
- **KPI:** Key Performance Indicators (KPIs) refer to a set of quantifiable measurements used to gauge a company's overall long-term performance.

Listening to our stakeholders

Sustainability is a broad topic. In developing strategies, all organisations need to choose where to focus their efforts for maximum positive effect.

We asked stakeholders about the key issues they really care about. This process is called a materiality assessment and it helped us to identify and prioritise our most material issues.

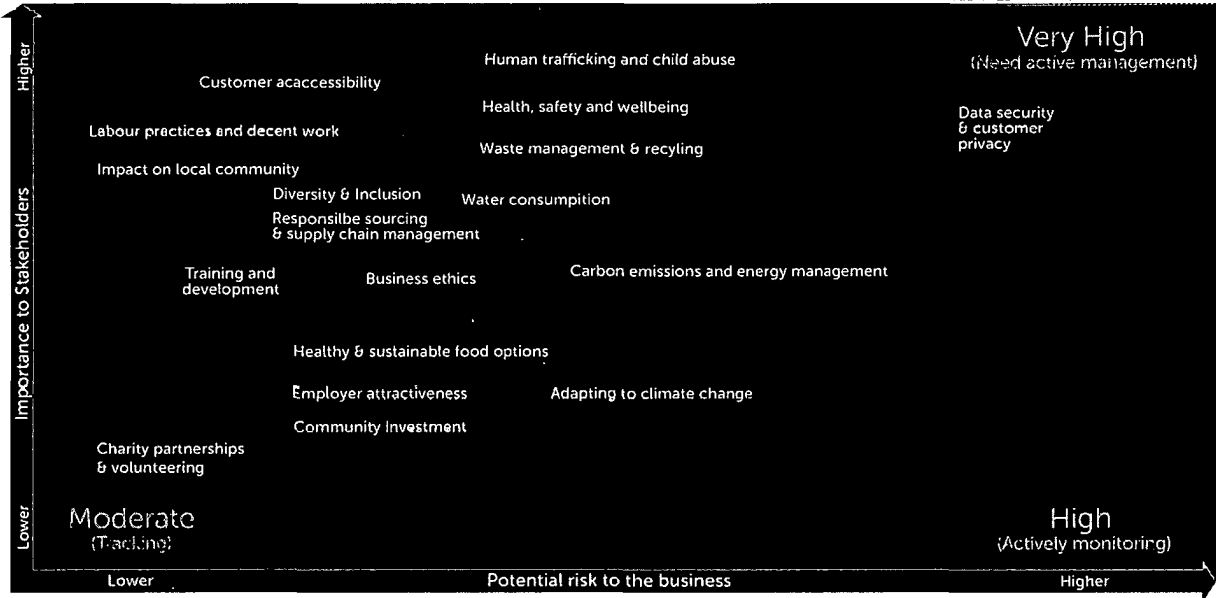
Consulting our stakeholders

We used an independent sustainability specialist, Simply Sustainable, to conduct our materiality assessment. Simply Sustainable analysed ESG rating agencies, peer and comparators' reports, and conducted a detailed PESTEL analysis to identify 18 material issues for the business.

Through surveys and discussions, these 18 material issues were ranked by level of importance by over 40,000 users of our website, hundreds of our colleagues and a selection of key individual stakeholders including landlords, key suppliers, lenders, corporate customers, charity partners and a local council. To understand the risk posed by each material issue, the consultancy applied the Travelodge business risk assessment methodology, using both a 3 and a 10-year horizon.

The results were plotted on a materiality matrix below (which reflects the 3-year horizon view). Those areas on the top right of the diagram indicate the priority issues for Travelodge to be addressing as part of its sustainability plan.

A wide spread of sustainability issues are material to Travelodge’s business, ranging from operational, environmental and security, to inclusivity, wellbeing, and safety for its customers and employees (3-year view)

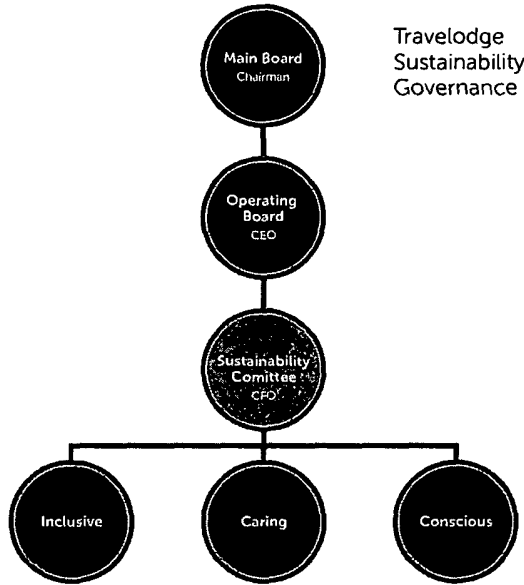


The materiality analysis and resultant Better Future plan are aligned to our wider business strategy. In concluding our Better Future plan, it was clear that there were no material areas absent from our existing business strategy or major changes of directions required, but the plan allowed us to ensure those areas were appropriately covered with sustainability underpinning our wider approach.

- Glossary**
- **PESTEL:** An analysis tool that helps a company understand what Political, Economic, Social, Technological, Legal and Environmental factors may be affecting the business either now, or in the future.
 - **ESG Rating Agency:** Research organisations that use publicly available information to assess the ESG risks of companies. This information is used by investors to help manage the risks in their portfolios.

Better Future governance

In order to effectively monitor the implementation and results from our sustainability initiatives we have put into place a governance model. This model ensures that we are effectively monitoring and directing the implementation of our Better Future plan in a way that builds trust.



Travelodge Sustainability Governance

The Better Future Committee meets every quarter and is chaired by the Chief Financial Officer who sits on both our Operating Board (the highest executive board) and is a main board member (a director under the Companies Act).

The Committee meets to review targets and KPIs that have been set, and performance against these targets, alongside on-going work and progress under each of the three pillars.

The output of the Committee is reported to the Operating Board, which is chaired by the Chief Executive Officer, at least twice a year and to the Travelodge Main Board, which is chaired by the Group's Chairman, at least annually.

The Chairman has asked our new non-executive director, Helen Normoyle, to be the Board lead for ESG.

Our performance: Inclusive

We plan to improve both our gender and ethnicity splits of colleagues across the business and move to improve social mobility - allowing our colleagues to learn more, earn more and belong. We also plan to further develop our customer accessibility procedures in conjunction with a third party external expert, the charity Disability Positive. All of this will make Travelodge a more inclusive place for our colleagues and customers.

Our Colleagues

Diversity and Inclusion

We believe that all colleagues must feel welcome and are part of the Travelodge team. Being inclusive with diverse representation throughout all areas of our business is important to us.

We monitor the diversity of our existing workforce in order to support a culture of equality, diversity and inclusion. We have both an Equality and Diversity Policy and a Trans Inclusion Policy in place.

We recognise the benefits of having a diverse workforce with different backgrounds, solely employed on ability. In previous years we have held discussions on this topic by way of an equality & diversity governance group which met quarterly. In 2021 we changed our approach, creating listening groups with different colleagues, to focus on specific topics such as gender diversity and our LGBTQ+ community. So far, we have seen greater action as a result of these groups and therefore our aim is to continue this approach in the coming years.

Our focus on equality and diversity has helped us to a leading position where the majority of our hotel managers are female. We are also ahead of the target of 33% female representation for diversity in senior leadership roles, as set out by the Hampton-Alexander review for FTSE 350 companies.

However, we have more work to do, especially on gender. Despite our workforce being 73% female overall, at district manager level, just 22% of our colleagues are female. At Senior Levels (which is the Operating Board, Directors and heads of department), 41% of colleagues are female and 59% are male. Our operating board is 50/50 male to female.

Gender diversity

Our workforce is 73% female and 27% male.

We typically see a higher percentage of females in hourly paid roles and up to Hotel Manager level.

- Hourly paid colleagues account for 87% of our workforce, 76% of these colleagues are female.
- At hotel manager level, who are salaried, 63% of colleagues are female and 37% male.
- In comparison, at district manager level, just 22% of colleagues are female.
- At senior levels, 41% of colleagues are female and 59% are male.

Gender diversity

Our workforce is:
73% female
27% male



We typically see a higher percentage of females in hourly paid roles and up to Hotel Manager level.

At hotel manager level, who are salaried:
63% of colleagues are female
37% are male



Hourly paid colleagues account for 87% of our workforce.

76% of these colleagues are female.



In comparison, at district manager level, just 22% of colleagues are female

At senior levels, 41% of colleagues are female 59% are male

Throughout 2021, our focus has been on gender diversity with balanced shortlists for district manager and senior level roles.

10 District Manager roles were filled in 2021. At the second interview stage our candidate split was 50% male and 50% female. 33% of roles were subsequently secured by females.

There were 11 senior level head office roles (Level 1 & 2) filled in 2021. At the interview stage, 33% of candidates were female and 67% were male. 55% of roles were secured by females.

Ethnic diversity

In the UK, around 13.8% of the population identify as being from an ethnic minority background. In London this number increases to around 40%.

- 69.0% of our workforce identify as white
- 20.5% from ethnic minority backgrounds
- 10.5% prefer not to say

At senior levels (Board, Level 1 & 2) there is minimal representation from ethnic minorities:

- 79% identify as white
- 3% identify from ethnic minority backgrounds
- 18% prefer not to say

London hotels

- 49% of colleagues identify from ethnic minority groups

We have a lot of work to do to champion diversity, especially within Senior Level roles.

Key Performance Indicator

For 2022, we will continue to focus on balanced shortlists for gender and follow the same approach for ethnicity across our senior teams.

As part of our Better Future plan, our aspiration is that, by the end of 2025, 10% of our Senior Level colleagues will come from an ethnic minority background.

Fair labour practices and decent work

Travelodge pays the national living wage to all hourly paid Team Members as a minimum, irrespective of age.

Case Study

In 2016 Travelodge made the step to remove all zero hour contracts, giving our colleagues more certainty to the hours they would work.

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STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

All hotels are expected to operate to a Blueprint which enables hotels to recruit the optimum number of colleagues on greater contractual hours. During the pandemic, with resulting levels of uncertainty, we saw an increase in the number of lower contractual hours contracts being issued. In 2022 and beyond we need to reverse this trend to recover our core stable team. Our data shows us that colleagues recruited on an 8 hour contract are much more likely to leave within 12 months compared to colleagues recruited on a 24 hour+ contract.

We are currently trialling pay for productivity schemes, one of which we expect to launch in early 2022. The schemes will give hourly paid colleagues the opportunity to earn more for doing more, therefore increasing their overall earning potential.

Key Performance Indicator

We are targeting hotels to achieve 90% compliance for 24 hour+ contracts according to Blueprint requirements by the end of 2025.

Training and skills development

We have a strong record of developing a diverse team of people, raising their average incomes and improving their career prospects. The vast majority of our hotel managers began their careers at entry-level and have successfully been promoted internally.

In our head office, a larger percentage of females work in the lower paid roles compared to senior roles, however 80% of hotel management role vacancies were filled internally in 2021. Developing colleagues to enable them to progress into more senior roles will in turn support our gender diversity targets. Coupled with that, we are heading into an "applicants' market" meaning it may become more difficult to recruit externally, particularly for more senior roles.

As we move forward the importance of housekeeping becomes paramount, combined with the capability to assist customers when needed. Therefore, having multi-skilled colleagues is critical. Being multiskilled may also mean colleagues have higher earning opportunities as they can work in more than one department meaning more shifts may be available to them.

Our People Pledge is "We are committed to creating an inclusive workplace, providing decent work with opportunities to learn more and earn more, where everyone can be their true self and belong". It is therefore essential our colleagues know what is available to them if they want to develop and progress, with the most beneficial way of doing this being through career conversations with their line manager.

Glossary

Your Voice: Our annual engagement survey, used to understand levels of satisfaction from all of our colleagues throughout our business, with the aim of informing future initiatives for improvement.

Key Performance Indicator

In our head office roles we plan to increase the number of internal promotions from 35% to 40% by the end of 2025.

In hotel operations we aspire to have 35% of hourly paid colleagues skilled in more than 1 role by the end of 2025 and maintain the current high levels of internal promotions at 75%.

As a company, we want to increase the Your Voice score for the question "If I want to, I know how to develop my career at Travelodge" from 7.6 to 8.5 out of 10 by 2025.

Our Customers

At Travelodge, our purpose is to provide affordable travel for everyone. We offer our customers the best balance of location, price and quality to suit their travel needs.

We use many tools to collate customer feedback on their experience with us and we plan to continue to engage with them to understand how we are responding to the sustainability issues that are important to them.

Customer accessibility

At Travelodge, we believe everyone should be treated fairly. In the UK, there are around 14.1m people with a disability. We recognise the wide range of customers that use our premises and aim to make our hotels accessible and welcoming to everyone. There are currently 2,391 accessible rooms (5% of all rooms) within our portfolio.

We hold research groups to hear first-hand from our customers what their needs are, so these can be incorporated into both our service offering and our policies. We also retain a specialist accessibility consultant to help us consider accessibility in all product development.

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

Key Performance Indicator

We want to do more to make our hotels accessible for everyone. This year, we appointed a dedicated charity, Disability Positive, to advise on policy, training programmes and product development to support customers with lived experience of disability and long term health conditions.

Glossary

Disability Positive: A charity based in Cheshire and providing services, opportunities and a voice to people living with disability and long-term health conditions, and their families.

Our performance: Caring

We plan to improve the wellbeing of our colleagues by encouraging an inclusive culture that promotes a positive approach to health, safety, wellbeing and security. We will continue to develop our relationships with our charity partners.

Health & Safety

Our number one priority is the safety and security of our customers and colleagues. We consider the safety of our customers and colleagues in all business decisions. We do this by having a comprehensive and proactive approach to risk assessment, clear policies and procedures and controls.

We regularly train our colleagues on our comprehensive range of safety and security policies and procedures. In addition, we have a nominated Safety Champion in every operational district to support hotel teams.

We have a nominated Safety Champion in every operational district to support hotel teams. Our Safety Champions are operational colleagues, usually a member of the management team or an experienced senior colleague from within the operational district they represent, who can provide support and coaching on health and safety matters to others within the district. The Safety Champions regularly meet throughout the year to discuss any issues or concerns or provide input and feedback on safety related processes or procedural changes being considered or in the process of being implemented.

Our internal team actively monitors our audit, enforcement and accident and incident data, ensuring that all information is analysed and improvements are made where possible. This helps us to prevent any recurrence and reduces risk to our customers and colleagues.

Our hotels are subject to routine inspections from local authority Environmental Health Officers, Fire Safety Officers and officers from other various enforcement agencies. In addition, we use an independent expert company to carry out unannounced safety audits at all our hotels.

As described in the governance section of this plan, one or more Board Directors who are also Operating Board members as well as at least one additional Operating Board member attend the monthly Safety, Security & Risk committee. The committee ensures the risks we face are understood, managed and monitored into the future.

Case Study – working safely during the COVID-19 pandemic

At the start of the pandemic, we created TravelodgeProtect+, a programme of cleaning and social distancing measures, designed to keep our guests and teams safe and give everyone peace of mind. The programme was developed by a dedicated cross functional hygiene strategy team in discussion with our peers and bodies, such as the UK Hospitality Association.

We also fed into consultations run by the Ministry of Housing, Communities & Local Government as part of the government, issuing guidance about how to safely operate hotels during the pandemic.

Wellbeing

The physical, emotional, financial and work wellbeing of our colleagues is important to us. In 2021 we launched our wellbeing platform Better Me, creating resources available to all colleagues to support 4 pillars of wellbeing:

- **Financial** - Understanding your benefits including pension, and the recent introduction of our salary finance scheme
- **Emotional** - Resources to support our colleagues' mental health including our Employee Assistance program
- **Physical** - Discounted gym membership and resources to support physical health
- **Work** - How to progress your career with Travelodge including CV & interview tips and how to join the Aspire programme

We will continue to evolve Better Me during 2022 and in future years.

Our annual 'Your Voice' survey also monitors whether colleagues feel that there are resources available to them at Travelodge to support their wellbeing.

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STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Our Employee Assistance Programme provides an online and 24 hour telephone helpline for any colleague and members of their family needing support. The service covers 3 core areas of wellbeing - financial, emotional and physical. Legal professionals can provide support on a range of financial issues. Colleagues and their family members can benefit from up to 6 free face to face counselling sessions to support mental health issues from depression to relationship problems, and registered nurses can assist with physical wellbeing.

Key Performance Indicator

We want to increase 'Your Voice' survey score for the question "There are resources available to me at Travelodge to support my wellbeing" from 7.4 to 8.5 by 2025.

Charity partnerships

We work closely with its charity partners the British Heart Foundation and Pennies. We became the first hotel brand to join Pennies in 2011, allowing customers the opportunity to add a few pennies to their hotel room bookings for charity. Customers have raised over a million pounds so far using the digital charity box. For the first two years, customers' online micro-donations supported KidsOut and Cancer Research UK. From 2013 to early 2017, donations benefited Macmillan Cancer Support. Since March 2017, donations are supporting the British Heart Foundation, as they fight for every heartbeat.

Key Performance Indicator

We want to encourage a further 1,000 colleagues to train in CPR by 2023.

Case Study - British Heart Foundation

We have partnered with the British Heart Foundation since 2017 and plan to continue the relationship during 2022. We expect to train a further 1,000 colleagues in CPR during the year using a new phone app that teaches CPR using only the app and a pillow, removing the need for a traditional CPR dummy. This will help keep both our colleagues and customers safe.

Human trafficking and child abuse prevention

Human trafficking is a modern form of slavery. It occurs when men, women, children and young people are forced, tricked, or persuaded to leave their homes and then exploited, forced to work or even sold.

Worldwide, 40.3 million men, women and children were victims of modern slavery on any day in 2016. Children account for 1 in 4 victims - a total of 10.1million. In the UK, Home Office statistics reveal that 10,613 potential victims of human trafficking were identified in 2020.

The use of hotels for child trafficking and use associated with criminal activity is a recognised issue throughout the hotel industry. Police and children's charities advise us that criminal groups will often move vulnerable children to locations outside of their known local area to minimise the child's ability to access help.

All our hotel teams are trained according to national guidelines supported by the NSPCC, which have also been approved by the National Working Group on child sexual exploitation, South Yorkshire Police and the MET Police. Training is delivered via eLearning every 6 months.

Key Performance Indicator

We want to maintain 100% of hotel colleagues to undergo child trafficking and human rights training during 2022.

Data security and customer privacy

We are committed to ensuring that all personal data, relating to both our customers and colleagues is held in a safe and secure manner and is used in an ethical manner.

It is our policy to manage and store personal information of both its colleagues and customers in compliance with all relevant Data Protection Legislation in the jurisdictions in which it operates, in particular but not exclusively; The Data Protection Act 2018 and the EU General Data Protection Regulations (GDPR).

We implement "privacy by design" into everything we do, as evidenced by ongoing privacy impact assessments and the translation of these into development plans and actions. We contract our key supply chain to stringent auditable standards (predominantly ISO27001) which cover all aspects of privacy including subject rights, transfer legality, information security controls, sub-processing and applicable standards. We also have appointed an independent Data Protection Officer to arbitrate on behalf of our customers and colleagues.

We only collect and maintain sensitive personal information data which is strictly necessary for protection of life such as for Health and Safety reasons or consistent with maintaining good employment practices. Such usages are subject to mandatory privacy assessment.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)**

We assess our cyber security maturity using the CIS control framework. During 2022 we plan to review whether this framework continues to be appropriate based on our size and complexity and will review whether there are alternatives that would be more suitable moving forward. We also conduct a wide array of scheduled and ad hoc technical security testing using a range of security tooling and independent third party specialists alongside a Responsible Disclosure programme.

Training is the single most effective way to ensure we are not vulnerable. All of our colleagues receive training at least annually and upon induction not just on information security but also GDPR and credit card handling.

The training is supported by a company-wide awareness campaign. We raise awareness of the dangers of phishing through an ongoing phishing simulation programme that educates employees in real time based on their actions against simulated phishing tests. We maintain, train and support data privacy champions in each of our business functions whose role is to ensure ongoing compliance with ethical business practices with regard to our customer and colleague data.

Case Study – Phishing attacks and awareness training

In 2020 we introduced a third party tool to measure the phishing susceptibility of our colleagues through a programme of testing and a means to provide education and guidance to any colleague who falls victim to the phishing test.

Key Performance Indicator

We plan to maintain a phishing susceptibility rate of less than 10% across the business.

Our performance: Conscious

Our long-term goal is to become a net-zero business. In the coming year, we will set out the roadmap towards achieving this target, ensuring that our new build and refurbishment specifications are redesigned to reflect the strategic importance of sustainably.

Every organisation, in fact, every human being, has an impact on the world. For us, being actively conscious means being aware of those impacts and working to minimise the negative, while increasing the positive.

Climate change and carbon emissions

Described as the existential challenge of our time, the effects of our changing climate are already in evidence around the world. Despite the global efforts at COP26 to keep global temperature rises below 1.5C by the end of the century, recent analysis⁽¹⁾ shows that, based on the short term goals already set out by countries, the temperature rise will top 2.4C.

Carbon emissions reduction

We recognise that we have a part to play in reducing carbon emissions. In 2019, we set up an Energy Governance Group with responsibility for monitoring the changing energy landscape and providing guidance and recommendations to the business.

Key Performance Indicator

We also expect to have reduced our carbon emissions from electricity by 14% compared with 2017 levels by the end of 2022.

Recognising the importance of our impact on the environment we voluntarily adopted in part the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 for the year ended 31 December 2019.

In line with Companies Act 2006 (Strategic Report and Directors Report) Regulations 2013, we are now reporting our greenhouse gas (GHG) emissions as part of both our annual strategic report and annual sustainability report.

Our GHG reporting year is the same as our financial year from 31 December 2020 to 31 December 2021. Our net carbon footprint for the 2021 financial year was 39,922 tonnes of carbon dioxide and equivalent gases (CO2e), with an intensity of 70.6 tonnes of CO2e per £million turnover. Although we used 21% more energy overall for 2021 vs 2020, the tonnes per £million metric reduced because during 2020 our hotels were all open during the first quarter, when typically we consume the most electricity to heat our hotels but generate relatively lower sales than in the summer season. At this time in 2021, the majority of our hotels were closed due to the covid-19 pandemic. Historically we would have consumed the least electricity and generated a larger proportion of our sales. In 2021 all of our hotels were fully reopened from May 2021.

[1] <https://www.theguardian.com/environment/2021/nov/09/cop26-sets-course-for-disastrous-heating-of-more-than-24c-says-key-report>

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

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

		Current reporting Year 2021	Current reporting Year 2020	% change 2021 v 2020
	Energy consumption used to calculate emissions: kWh	196.3 GWh	162.7 GWh	(20.6)%
		Current reporting year 2021 (tonnes of CO2e)	Current reporting year 2020 (tonnes of CO2e)	% change 2021 v 2020
Scope 1	Emissions from combustion of gas	12,336	9,981	(23.6)%
Scope 1	Emissions from combustion of fuel for transport purposes	1,010	1,128	10.5%
Scope 2	Emissions from purchased electricity	26,277	24,024	(9.4)%
Scope 3	Emissions from business travel in rental cars or employee-owned vehicles where company purchases the fuel	298	208	(43.1)%
Gross Emissions	Total scope 1 + 2 CO2e emissions	39,922	35,341	(13.0)%
Intensity measure	Tonnes of CO2e per £m turnover	70.6	124.3	43.2%

The methodology used to calculate our emissions is based on the UK Governments Environmental Reporting Guidance (2013) and is in line with the methods used previously for reporting under ESOS and the CRC Energy Efficiency Scheme. Emissions factors are taken from the UK Governments GHG Conversion Factors for Company Reporting (2021 & 2020).

Energy management

During 2021 we progressed our energy efficiency programme by delivering projects that reduce energy consumption, as well as continuing to develop our technical understanding of the estate to identify future projects that will facilitate the reduction of energy consumption.

Case Study – Energy Efficiency

Lighting

Our energy efficiency programme was set up in 2017, with the first project being to install LED bulbs in hotel common areas along with motion sensors that automatically switch off lights when they're not needed. We have now converted the majority of our hotels and have reduced our annual electricity consumption by 20.2 GWh or 4,283 tonnes of CO2e.

Our next focus during 2022 will be on installing LEDs into customer rooms as part of our ongoing refurbishment programme.

Heating and cooling

This is the major energy project delivered throughout the year, having started in 2019 which is focussed on installing new controls to hotel heating, cooling and ventilation systems. The new units can be controlled centrally, allowing for max. and min. temperatures to be set at different times of the day. This prevents rooms from being overheated or the heating being left on when the room isn't occupied. The new control system can be applied to our in-room air-conditioning and common area air-conditioning ventilation systems.

The pace of this project has been slowed due to the impacts of the pandemic, but installations were completed at 44 hotels in 2021. At the end of 2021 we had installed these systems in 124 hotels or about a quarter of the estate, saving 6.7 GWh annually, which equates to 1,428 tonnes of CO2e. Once rolled out to the whole estate, we expect the project will save about 23 GWh annually of energy equating to 5,170 tCO2e.

Quick wins

Energy saving needn't be complex. Sometimes simple changes can make a big difference. In 2019, we changed our policy of room set up, which previously asked our housekeepers to set up a room with the bed lights on between September and May.

This often meant that lights were left on from set up at 10am until guests checked in sometime after 3pm. Flagged as a potential issue by our colleagues, changing our policy to remove this requirement was a quick and straightforward way of avoiding energy waste. This saves about 70MWh annually, which equates to 16 tonnes of CO2e.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)**

During 2020, we engaged an energy specialist to conduct audits of c.80 hotels each year to identify inefficient usage and make recommendations to remedy these. We are also reviewing other more significant capital works such as air source heat pumps to replace traditional boilers

Key Performance Indicator

During 2022 we will finalise our route to becoming a net zero operator of our hotels and consider how this can be aligned to Science Based Targets ("SBTi").

Building new hotels and refurbishing our existing hotels

Growth through new hotels is key to our strategy and in 2021, we opened 17 new hotels and plan to open a further 6 hotels during 2022 before returning to more normal levels of 15 to 20 hotels thereafter.

We already develop new hotels considering our impact and include the following features:

- Low energy lighting and motion sensing controls
- Aerated showers and taps
- Full insulation
- Windows and external fixtures fitted accurately for minimum energy leakage
- Smart automatic utility meters installed
- Variable Refrigerant Flow (VRF) heating and cooling system
- Dual flush toilets

Case study - new hotel build at London Docklands

Due to open later this year, our new hotel at London Dockland is designed to an 'Excellent' BREEAM rating and will have an Energy Performance Certificate ("EPC") rating of A. The hotel will minimise fossil fuel usage with the introduction of Air Source Heat Pumps to heat water and with gas only used as a top up. It will also have 40m² of solar panels on the roof equating to over 3,000kg of carbon saving per year. To provide customers the opportunity to reach the sites in more sustainable ways, 50% of all car parking spaces will offer electric vehicle charging and there will also be space for 26 bicycle stands.

Glossary

BREEAM stands for 'Building Research Establishment Environmental Assessment Method'. It is an established method of measuring the sustainability of buildings and how the design of a building should be considered. It can form part of the planning requirements local authorities may include.

In addition, some sites may have other features such as combined heat and power boilers.

However, carbon emissions are generated beyond the equipment installed within the building and are impacted by the very fabric of the building itself.

Key Performance Indicator

During 2022 we plan to review how our hotels are built from the ground up and based on the conclusions of the review, adjust our new build specification where possible, and build our hotels in a more sustainable manner.

During 2022 we will ensure all material suppliers that contribute to the refurbishment of our hotels are reviewed for their sustainability credentials including their own progress on reducing carbon emissions, the volume of renewable energy they use and the volume of product recycling they undertake including progress to zero to landfill.

As we develop our sustainable procurement process (see Responsible sourcing and supply chain management), we will ensure contracts with new refurbishment suppliers follow a standardised route to acceptance which formally aligns with our own sustainability agenda.

As part of our refurbishment programme we want to use products that have sustainable credentials, use as little CO₂ as possible to make and that generate as little waste to landfill as possible. We also want to make sure that we reuse or recycle as many of the things we replace in this process as possible.

Case Study - Refurbishment of our hotels

The recycled fishing nets used to produce the yarn in our replacement carpets are part of a project supporting clean ocean initiatives, tackling over 640k tonnes of discarded fishing nets currently impacting marine life. The carpet backing is also made of old plastic bottles. Every 10 of these bottles recycled rather than being sent to landfill saves enough energy to power a laptop for 25 hours.

In addition, Sleepzee, the provider of our beds, was the first UK bed supplier to be awarded the Planet Mark Accreditation which recognises outstanding achievements and actions in organisations that are committed to reducing their carbon emissions.

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Adapting to climate change

Even if the world stopped emitting greenhouse gases ("GHGs") tomorrow, the effects of climate change would be felt for many centuries to come. Efforts today to reduce the amount of GHGs entering the atmosphere will help to limit the impact to future generations. For people alive today, adaptation means learning to live with the changes that are already locked in.

All organisations need to understand how climate change will affect their businesses, customers and supply chains. For example, in the UK, hotter summers, wetter winters and the increased risk of flooding are widely reported risks. The switch to electric vehicles will also change how some of our customers travel. Planning for these changes will be a key focus for the business during 2022.

Key Performance Indicator

In the coming year we intend to conduct a flood risk review on our existing estate and the impact of a future world where temperatures being hotter and colder for longer periods of time,

Conclude a review of the TCFD (Task Force on Climate-related Financial Disclosures) in readiness for future Annual Reports & Financial Statements.

Water management

Water is a vital resource and yet around 40% of the world's population is affected by water scarcity. The challenge isn't just global. The supply of water in the UK is becoming more unpredictable and issues around taking water from surface sources alongside water infrastructure mean that within the next 20 years, demand for water in parts of southern England will probably outstrip supply.

Water consumption is mainly driven by use in bedrooms (showers, sink, toilets) bar cafes and cleaning throughout our hotels.

Our third party specialist energy brokers monitor and report on our water consumption, benchmarking our use against similar sized businesses and advising on measures to reduce our use. These include installing aerated showerheads and taps, which reduce water consumption by up to 50%. We also collect rainwater at certain sites which is used to irrigate green spaces.

Currently our water consumption equates to about 120 litres per customer with about 37% of these customers using less than 100 litres per customer, 55% using between 100 and 120 litres per customer and the balance of 8% using over 150 litres per customer.

Key Performance Indicator

We have set a target to reduce our overall water consumption to 100 litres per customer by 2025. We are extending our maintenance programme, adjusting excessive shower flow rates, repairing leaks and addressing plant room issues. We will also be assessing the opportunities for further water conservation and, where appropriate, water reuse.

Waste management & recycling

Waste comes in many forms and is generated from within our business, within our supply chain, and by our guests. Plastics, e-waste, leftover food – everything no longer needed has to go somewhere. While recycling has its place, the best way of dealing with waste is not to create it in the first place.

We are working with our waste management suppliers to assess how we can set targets to reduce waste across our business. We are also talking to our suppliers about the opportunities to re-think and re-design processes to avoid waste altogether.

Key Performance Indicator

We still have work to do on waste, and in 2022 we intend to conclude our review of the waste Travelodge generates with a view to agreeing a more detailed action plan.

Responsible sourcing & supply chain management

Travelodge, like all organisations, relies on its supply chain. From mattresses to energy, carpets to laundry services, companies within our supply chain are a key part of the Travelodge ecosystem.

Responsible sourcing and supply chain management looks at how the business selects and engages with its suppliers in a fair and ethical way. It also considers what policies and processes the supplier has in place to ensure that its own organisation is well run and driving its own sustainability agenda.

Working together with our suppliers to share best practice on sustainability will be a key part of our plan.

Key Performance Indicator

In 2022, will be reviewing our responsible sourcing criteria and looking at how we can embed them into our procurement processes and procedures.

Case Study - Removing single use plastics

In 2018, Travelodge started working with laundry services provider Elis to eliminate single use plastic from the supply chain. Previously, clean linen was shrink wrapped in plastic before being placed into cages for delivery to our hotels. Annually, this accounted for 60 tonnes of plastic waste. We are working alongside Elis to change the system to allow linen to be collected and returned in reusable and washable fabric cage liners and have completed this project at 2 out of 12 factories so far with a further 2 factories expected to transition during 2022.

Each cage liner can be used for up to 3 years and can be recycled or reclaimed at the end of its life. By the end of 2021 we have reduced our plastic use by 10 tonnes per annum. During 2022 we expect up to 16 tonnes will be removed and the aim is to remove all 60 tonnes per annum over the next three years.

In addition to the benefits of removing single use plastic, the volume of rejected linen has reduced therefore saving water and energy from reducing the need to re-wash products.

Our business ethics

As a large private organisation we aren't subject to the statutory obligations regarding business ethics that apply to publicly listed companies. However, we believe that managing our business to a set of clear moral criteria is the right thing to do for all of our stakeholders. That is why, in 2019, we voluntarily adopted the Wates Governance Principles for Large Private Companies. The principles provide a framework for the Group to demonstrate how the Board makes decisions for the long term success of the company and its stakeholders, while complying with the Companies Act 2016. More information can be found in our Annual Report & Financial Statements.

It is our policy to conduct all business fairly and in an honest and ethical manner. The business takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly, and with integrity in all business dealings and relationships. We implement and enforce effective systems to counter bribery and corruption (e.g. Anti-Corruption and Anti-Bribery Policy, Business and Ethics Policy, and Whistleblowing Policy).

Key Performance Indicator

As part of our plan, we will review the options to provide ethics training to all Operating Board members on induction and at least annually by 2023.

Pensions

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

Human Rights

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

Accessibility

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

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

Anti-corruption & Anti-Bribery

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

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Principal risks and uncertainties


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

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

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


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

Financial risk management is presented within note 21.

	Principal Risk	Description	Key Mitigations	Progress
Regulatory	<p>Covid-19</p> <p>Impact compared to 2020:</p> 	<p>In line with the UK Government's guidance Travelodge reopened all of its hotels from May 2021.</p> <p>Following that time all of hotels have remained open to trade, although our ability to trade was marginally impacted by the varying conditions imposed by the governments of the United Kingdom and also other imposed requirements such as Track & Trace.</p> <p>Following the successful vaccination programme that has been rolled out across the country, alongside it being apparent that current variants of the covid virus in circulation are not sufficiently concerning to impose further severe restrictions, the risk of covid on Travelodge has lowered.</p> <p>Whilst there remains a risk that new variant(s) may arise which do cause further, more severe, restrictions, the likelihood of this is low, and it more likely that covid will now take its place within the usual flu cycles society traditionally lives with.</p> <p>Due to the majority of our central office teams working remotely there is an increased risk of cyber threats including phishing.</p>	<p>During 2021 the Group delivered upon the recovery plan to enable the business to successfully trade through the impact of Covid-19, this involved a number of key components including:</p> <ul style="list-style-type: none"> - continued action to preserve cash flow with discretionary spend reduced and non-essential capex deferred until appropriate certainty was reached; - making use of government measures where possible including furloughing more than 8,000 team members under the Job Retention Scheme and benefiting from the Hospitality Business Rates Relief programme; and - benefited from the Company Voluntary Arrangement ("CVA") which was agreed in 2020. <p>For further details see the Strategic Report.</p> <p>We have reinforced good cyber security practice during the year since the majority of our central support team have been homeworking, including the introduction of phishing training to all central staff, alongside a phishing testing programme.</p>	<p>Travelodge made good progress, developing our corporate and operational plan to adapt to the consequences of the pandemic.</p> <p>Key actions during 2021 were the continuation and subsequent adaptation of our Safe to Operate, Travelodge Protect+ framework.</p>




TRAVELODGE HOTELS LIMITED

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)**

	Principal Risk	Description	Key Mitigations	Progress
Regulatory	<p>Regulatory</p> <p>Impact compared to 2020:</p> 	<p>Large financial penalties or enforced closures of our hotels could be imposed for breaches of Health & Safety or Data Protection legislation. Due to the number of hotels we operate, and the volume of customers who stay with us, we may be exposed to isolated incidents which fall below our expected standards and may expose us to prosecution.</p> <p><i>New regulation can impact upon Travelodge's business model and cause us to need to change our ways of working which incur additional cost.</i></p> <p>As a large private company we note that the level of regulation continues to increase such as in 2021 with white paper issued by BEIS in relation to audit and internal controls.</p>	<p>Our number one priority is the safety and security of our customers and colleagues. We consider the safety of our customers and colleagues in all business decisions. We do this by having a comprehensive and proactive approach to risk assessment, clear policies and procedures and controls.</p> <p>The Group has policies and procedures which address Health and Safety and Data Protection risks alongside dedicated resource, systems and processes. Primary Authority Partnerships are established for fire and Health & Safety.</p> <p>A full planned and preventative maintenance programme runs year-round, and incidents, accidents and near miss activity are reviewed to establish further action required. A cycle of training provides regular and systematic skills transfer, and hotel teams are briefed on their responsibilities and the Company escalation mechanisms, covering incident, accident, disaster recovery and interaction with emergency services. We use an independent third party to carry out unannounced safety audits at all our hotels and carry out an annual PCI DSS audit.</p> <p>The Group also maintains relevant insurance cover to an appropriate level both where required under regulation or where consider supportive to mitigate a specific risk.</p> <p>Via the Company's Safety, Security and Risk committee, new and emerging risks from regulation is considered and assessed.</p>	<p>During 2021, Travelodge remained abreast of new and changing regulation.</p> <p>A dedicated group is in place to review changing fire legislation, particularly following the Grenfell tragedy. This multi departmental group includes an expert panel of internal and external advisors to ensure legislation is appropriately considered. A permanent National Fire Advisor was also appointed during the year.</p> <p>A working group has also been set up to ensure the outcome of the BEIS review is adequately understood.</p>



TRAVELODGE HOTELS LIMITED

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)**

	Principal Risk	Description	Key Mitigations	Progress
Operational	Liquidity Impact compared to 2020: 	The Group operates a highly operationally and financially geared leasehold model, with high levels of fixed costs (including rent) and is funded mainly by publicly traded bonds. A lack of appropriate levels of covenant headroom, cash resources, or inadequate cost controls could impact our financial performance.	Through 2020 and 2021 following the impact of covid-19 the Group implemented a recovery plan including securing additional financing and a waiver for covenants attached to its existing financing. The Group has considered the possible cash requirements to the end of 2023 and modelled severe but plausible downside scenarios against the base case, within which the Group retains sufficient liquidity. For further details see the CFO Report.	This risk has reduced. Please see the Outlook section and the Going Concern section in the Strategic Report for more details on current developments.
	Attraction of people Impact compared to 2020: 	We employ over 10,000 people, particularly team members, assistant hotel managers and hotel managers. Market forces and other impacts such as the impact of Brexit may result in a shortage of available workforce.	We continue to operate our hotels on minimum manning levels subject to their risk and complexity. We also seek to continue to improve operational efficiency where possible.	During 2021 the impact of Brexit and the developments in the UK labour market have increased the risk of being able to attract sufficient volumes of colleagues. We have made progress in mitigating this risk where possible via operational efficiencies.
	Competition Impact compared to 2020: 	Our competitors could adjust their room rates, adversely impacting demand for our rooms.	See details of our strategy and our mission to deliver affordable travel for everyone on page 7.	During 2021 we have continued to monitor competitors' pricing using a variety of tools. This data informs our understanding of how competitor pricing is affecting customer demand for our hotels.



TRAVELODGE HOTELS LIMITED

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)**

	Principal Risk	Description	Key Mitigations	Progress
Operational	<p>Cyber and data</p> <p>Impact compared to 2020:</p> <p style="text-align: center;"></p>	<p>Our data and systems are exposed to external threats such as hackers or viruses. These could lead to data breaches, or disruption to our operation.</p> <p>We or our key system suppliers may also be directly or indirectly impacted through collateral damage impacted by the Ukraine conflict.</p>	<p>We manage information in compliance with relevant Data Protection regulations including the Data Protection Act (2018).</p> <p>The Company reviews general data security regularly and invests in proportionate and appropriate resource, systems and processes to endeavour to ensure the security of its systems, its customer, card data, and its compliance with the regulatory requirements of both PCI DSS and data protection regulations.</p> <p>We have invested in cyber insurance to mitigate the consequences of major unforeseen, or unavoidable service disruptions which might be caused by a cyber-related incident.</p>	<p>We continued to develop our mitigation to cyber risk through 2021 including through the development of phishing training and an on-going series of phishing tests.</p> <p>We have continued to benchmark ourselves to the CIS self assessment benchmark and use the results to inform future activity plans.</p>
	<p>Loss of supplier</p> <p>Impact compared to 2020:</p> <p style="text-align: center;"></p>	<p>Travelodge is reliant on third parties for services, and as such, is exposed to their business interruption risks or going concern risks, which may be heightened because of Covid-19 or the Ukraine conflict. This could impact on our ability to trade.</p> <p>During 2021 we saw challenges to certain supplies, including linen and food and beverage.</p>	<p>We maintain regular communications with existing key suppliers and review their business continuity and disaster recovery plans. Where possible we ensure contingency supply options are available if required.</p>	<p>We continued to monitor, review and speak with our key suppliers during 2021. We also redesigned our procurement processes to allow more regular review of those suppliers who Travelodge is more dependent on.</p> <p>During 2022, we expect to formalise a new Business Continuity Management System, which will then start to capture key potential process failures and inherently consider our key suppliers as part of this.</p>

TRAVELODGE HOTELS LIMITED

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)**

	Principal Risk	Description	Key Mitigations	Progress
Strategic	<p>Macroeconomic</p> <p>Impact compared to 2020:</p> <p style="text-align: center;"></p>	<p>The wider economy may suffer from adverse events which indirectly reduce the demand for our rooms or increase our costs, including pandemics, terrorism events, increases in inflation or interest rates or Brexit.</p> <p>Inflation particularly has grown recently, and there have been notable increases in the unit costs of both electricity and gas. The impact of the Ukraine conflict has contributed to this and could cause wider inflationary pressures if not concluded in the short term.</p>	<p>The Directors have reviewed the Group's financial projections for the foreseeable future, and in particular, the occupancy and rate forecasts which have been stress tested with plausible but pessimistic changes to those assumptions including macroeconomic shocks.</p> <p>The Company uses flexible energy contracts which allow the fixing of electricity and gas prices through the term of the contract. The prices were hedged through to spring 2023 prior to the recent price increases noted.</p>	<p>We continued to monitor, review and mitigate through 2021. The results of these reviews are within the going concern section of these financial statements on page 16 and 51.</p> <p>We note that the risk of inflation growth has increased alongside the consequential risk of increased interest rates. We will monitor these carefully throughout 2022.</p>
	<p>Sustainability and Climate Change</p> <p>Impact compared to 2020:</p> <p style="text-align: center;"></p>	<p>Climate change, biodiversity depletion and environmental pollution present risks to the business from a financial, operational and reputational perspective. Regulatory action to manage climate change could result in the introduction of additional taxes or restrictions being imposed.</p>	<p>During 2021 Travelodge completed a sustainability strategy review, which included an initial review of climate change risks.</p> <p>These, and the on-going work to review and mitigate them are further explained on pages 21 to 33.</p>	<p>Our first sustainability report will be published around the time of the Annual Report and Financial Statements, including KPIs and targets, the content of which is included within this report.</p>

Corporate Governance

For the year ended 31 December 2021, under the Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles for Large Private Companies (“the Wates principles”).

The key area of development during the year was the appointment of a new Chairman of the Board and the permanent appointment of a Chief Executive Officer as we begin to leave the challenges of the covid pandemic.

The Wates principles and how Travelodge has applied these are given below:

Principle	How has Travelodge applied it
<p>Principle One:</p> <p>Purpose and Leadership</p> <p>An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.</p>	<p>At Travelodge, our purpose is to provide affordable travel for everyone, offering our customers the best balance of location, price and quality to suit their travel needs.</p> <p>Our strategy is to make Travelodge better for our key stakeholders - customers, colleagues and investors, and for the future, underpinned by our new Better Future sustainability strategy. Travelodge’s purpose and behaviours were initially set out in 2013, under the Board’s direction, to guide the organisation’s strategy, decisions, processes and culture. We continued our communication during 2021 through quarterly leadership events, remotely where necessary due to Covid-19, as well as through more regular senior leadership calls, support centre, regional and district meetings. The strategy was further updated in 2021 and communicated to the teams at our 2022 annual conference, which was held as virtually in January.</p>

Principle	How has Travelodge applied it
<p>Principle Two:</p> <p>Board Composition</p> <p>Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.</p>	<p>The Group has a separate Chairman and Chief Executive to ensure that the balance of responsibilities, accountabilities and decision making across the Group are effectively maintained. The Chairman plays a pivotal role in creating the conditions for overall Board and individual director effectiveness.</p> <p>On 25 March 2021, Martin Robinson was appointed as Chairman of the Travelodge Board.</p> <p>On 7 May 2021 Craig Bonnar the interim Chief Executive was appointed as the Group’s permanent Chief Executive. Following the Chairman and permanent Chief Executive appointments, the Executive Committee, formed during 2020 to provide governance in the transition period, was disbanded.</p> <p>The Board comprises a Chairman, Chief Executive, Chief Financial Officer and three owner appointed directors. On 4 January 2022 it was announced that Helen Normoyle had replaced Jonathan Ford as the director nominated by Avenue Capital. One of these Non-Executive Directors works within the owner entity they represent and the other two were appointed by an owner entity, but work externally to their business.</p> <p>We are committed to further improving the diversity of our board as opportunities arise, within the constraints of our articles of association, which provide that the majority of our board-members are direct representatives of our shareholders, and therefore not appointed by the company. The appointment of Helen Normoyle further strengthens this commitment.</p> <p>The Non-Executive Directors between them bring experience in hospitality, digital, marketing, finance, audit and sustainability, in addition to perspectives and challenge from outside the sectors in which the Group operates. All Directors of the Board have access to company secretarial advice and may, if they wish, take professional advice at the company’s expense.</p> <p>The duties of the Board are executed partially through committees. One or more Board Directors attend the relevant committees, including the Audit, Safety, Security and Risk, and Investment. During 2022, we expect to also formalise a Sustainability Committee.</p>

TRAVELODGE HOTELS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Principle	How has Travelodge applied it
<p>Principle Three: Director Responsibilities</p> <p>The board and individual directors should have a clear understanding of their accountability and responsibilities.</p> <p>The board's policies and procedures should support effective decision-making and independent challenge.</p>	<p>Good governance supports open and fair business, ensures that the company has the right safeguards in place and makes certain that every decision it takes is underpinned by the right considerations. Whilst Board oversight is always maintained, key decisions are made by individuals and committees with the most appropriate knowledge and industry experience.</p> <p>The Board meets a minimum of six times a year, with further meetings convened as necessary.</p> <p>The Board delegates authority for day-to-day management of the company to the Chief Executive Officer. Certain governance responsibilities are delegated to other committees (Audit, Safety, Security and Risk and Investment) under a formal delegated authority framework approved by the Board. These committees include one or more Board Directors who support effective decision making.</p> <p>The Board receives regular, timely information on all key aspects of the business including Health & Safety, risks and opportunities, the financial performance of the business, strategy, operational matters and market conditions, supported by specific Key Performance Indicators.</p> <p>Key financial information is collated from the Group's various accounting systems. The Group's financial function is appropriately qualified to ensure the integrity of this information and is responsible for remaining compliant with regulatory changes. Financial information is currently externally audited by PricewaterhouseCoopers LLP on an annual basis.</p> <p>Other key information is prepared by relevant internal functions. The processes for collecting data, as well as reporting of that data, are reviewed on an annual basis by the Group's Safety, Security and Risk function.</p> <p>During 2021 we commenced a programme to expand our internal audit capability and scope to broaden coverage of central functions, in addition to our hotels. We expect this to continue during 2022 in conjunction with understanding the impact of the Department for Business, Energy and Industrial Strategy ("BEIS") proposed reforms to internal controls which is expected to be issued during 2022.</p>
<p>Principle Four: Opportunity and Risk</p> <p>A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.</p>	<p>The Board seeks out opportunity whilst mitigating risk.</p> <p>Strategic opportunities are highlighted to and discussed with the Board at each Group Strategy review, typically on an annual basis. Short term opportunities to improve performance are also reviewed in the normal course of business.</p> <p>The Audit Committee, consisting of the Lead Non-Executive Director (as chairman) and one other Non-Executive Director, with the Company's external financial auditors and other Board and functional leads attending by invitation as appropriate, ensures that material risks both inherent and emerging are identified and managed appropriately.</p> <p>The Audit Committee meets every six months and continues to refine and improve the company's risk management framework and risk registers, working to ensure consistency across the functional areas of the company. The Strategic Report includes key risks that are monitored by the Audit Committee.</p> <p>The company's systems and controls are designed to manage, rather than eliminate the risk of failure to achieve business objectives and will always provide reasonable and not absolute assurance against a risk crystallising.</p> <p>We note the 'Restoring trust in audit and corporate governance' white paper, which was issued in 2021 by BEIS, seeking responses to the government's proposals to ensure that the UK's audit and corporate reporting framework does all it should to safeguard the interests of investors and other stakeholders. We expect the results of this white paper to be issued during 2022 and will carefully assess any consequences to the company upon issuance.</p>

TRAVELODGE HOTELS LIMITED

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)**

Principle	How has Travelodge applied it
<p>Principle Five: Remuneration</p> <p>A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.</p>	<p>The Main Board is responsible for the Chairman’s and Chief Executive’s remuneration. The Chairman is responsible for other executive director’s remuneration, which is reported to and approved by the Board.</p> <p>The appointment and remuneration of the Chairman and the Chief Executive Officer are amongst the matters reserved for the Board.</p> <p>Other key reported metrics to the Board on an annual basis are Gender Pay Gap, pay reviews versus benchmark and CEO pay ratio to the Group.</p>
<p>Principle Six: Stakeholder Relationships and Engagement</p> <p>Directors should foster effective stakeholder relationships aligned to the company’s purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.</p>	<p>Accountability and transparency with stakeholders is key to the long term success of the Group. Travelodge consider their key stakeholders to be customers, colleagues, and investors, including shareholders, lenders, landlords and other creditors including key operational suppliers, local authorities and communities.</p> <p>Please refer to the Stakeholder Engagement section within the Strategic Report for a discussion of how we engage with each.</p>

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



Jo Boydell
Chief Financial Officer

22 April 2022

TRAVELODGE HOTELS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

The Directors present the Directors' Report for the audited financial statements for Travelodge Hotels Limited for the year ended 31 December 2021.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements are detailed on page 1.

Results

Results for the Company are for the full year ended 31 December 2021, with comparatives for the full year ended 31 December 2020.

For 2021, the Company made EBITDA (adjusted)⁽¹⁾ Profit of £(83.1)m (2020: Loss of £(70.4)m), Operating Profit before Non-Underlying items of £115.5m (2020: Loss of £(87.9)m), Loss Before Tax and Non-Underlying Items of £(64.0)m (2020: Loss of £(253.4)m) and a Loss Before Tax of £(33.8)m (2020: Loss of £(161.2)m).

Ownership

At 31 December 2021, the Directors regarded Anchor Holdings SCA Luxembourg as the ultimate controlling party.

Anchor Holdings SCA Luxembourg is owned by funds managed by GoldenTree Asset Management LP, Avenue Capital Group and Goldman Sachs Group, Inc.

GoldenTree Asset Management LP is a global asset management firm that specialises in opportunities across the credit universe in sectors such as high yield bonds, leveraged loans, distressed debt, structured products, emerging markets, private equity and credit-themed equities. The firm was founded in 2000 with offices in New York, London, Singapore, Sydney, Tokyo and Dublin, and manages approximately \$40 billion in assets under management.

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

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

Details of the executives who have responsibility for oversight of the Company on behalf of the funds can be found on page 45 of the 2021 Thame and London Limited annual financial statements, which are publicly available.

Statement of Corporate Governance Arrangements

For the year ended 31 December 2021, under the Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles for Large Private Companies.

The strategic report discusses the Group's corporate governance arrangements in the section "Corporate Governance" on pages 39 to 41.

Statement with respect to Employee Engagement

The strategic report discusses the Company's approach with respect to employee engagement in the section entitled "Stakeholder Engagement" on pages 19 and 20 and further clarity is provided as part of the discussion with respect to the application of Principle 6 of the adopted Wates principles on corporate governance in the section "Corporate Governance" on pages 39 to 41.

Statement with respect to Business Relationships

The strategic report discusses the Company's approach toward individual stakeholders and further clarity provided as part of the section entitled "Stakeholder Engagement" on pages 19 and 20.

(1) EBITDA (adjusted) = Earnings before interest, tax, depreciation and amortisation, and before rent phasing adjustments, non-underlying items and reflective of the position in line with the historic accounting principles (before IFRS 16). This measure also reflects the cash benefit of rent reductions following the CVA which completed on 19 June 2020. Non-underlying items have been removed as they relate to non-recurring, one-off items.

TRAVELODGE HOTELS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Going concern

The strategic report discusses the Company's assessment of the appropriateness of the going concern assumption on pages 16 to 17.

Future developments

Commentary in respect of likely future developments in the business has been included in the Outlook section of the Strategic report on page 4 and in the assessment of the going concern assumption on pages 16 to 17.

Currency

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

Insurance

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

Taxation

The underlying current tax charge for 2021 of £nil (2020: charge of £6.4m) breaks down between a current tax credit of £nil (2020: £nil) and a deferred tax charge of £nil (2020: charge of £6.4m).

There was a non-underlying tax charge of £4.0m for 2021 (2020: £nil) in respect of a provision set up for the estimated liability arising from settlement of an ongoing HMRC enquiry into prior periods.

Cash tax payments of £nil were made during the year (2020: £nil).

Dividend

The Directors do not recommend the payment of a dividend.

Independent Auditors

During the year the Directors re appointed PricewaterhouseCoopers LLP as auditors of the Company.

Statement on disclosure of information to auditors

The directors' report must contain a statement to confirm, for all directors in office at the time when the report is approved, the following:

- So far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware. Relevant information is defined as "information needed by the Company's auditor in connection with preparing his report".
- Each director has taken all the steps that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.
- Steps that a director ought to have taken would include making enquiries of other directors and the auditor and any other steps required by the director's duty to exercise due care, skill and diligence.

In determining the extent of each director's duty, the following considerations are relevant:

- The knowledge, skill and experience that might reasonably be expected of a person carrying out the functions of the Company director.
- The knowledge, skill and experience that the director actually has.

The penalty for 'knowingly or recklessly' making a false statement in this regard, and failing to take reasonable steps to prevent the directors' report being approved, could be imprisonment or a fine, or both, for each director indicted.

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



Jo Boydell
Chief Financial Officer

22 April 2022

TRAVELODGE HOTELS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board



Jo Boydell
Director

22 April 2022

Independent auditors' report to the members of Travelodge Hotels Limited

Report on the audit of the financial statements

Opinion

In our opinion, Travelodge Hotels Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2021; the Income Statement, the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

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

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

Independent auditors' report to the members of Travelodge Hotels Limited

Report on the audit of the financial statements (continued)

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Health and Safety regulations, Anti Money Laundering and Data Protection regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as UK Income and Value Added Tax legislation, the Companies Act, Employment Law and the implementation of government support schemes (Coronavirus Job Retention Scheme). We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate reported results and management bias in accounting estimates and judgements. Audit procedures performed by the engagement team included:

- Evaluating management's controls designed to prevent and detect irregularities
- Making enquiries with management, including consideration of known or suspected instances of non-compliance with laws and regulations
- Reviewing Board meeting and other minutes to identify any non-compliance
- Challenging assumptions and judgements made by management in significant accounting estimates and judgements
- Testing unusual or unexpected journal entries, particularly those impacting revenue.

Independent auditors' report to the members of Travelodge Hotels Limited

Report on the audit of the financial statements (continued)

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Nigel Reynolds (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 April 2022

TRAVELODGE HOTELS LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

	Note(s)	2021			2020		
		Underlying £m	Non- underlying £m	Total £m	Underlying £m	Non- underlying £m	Total £m
Revenue	4, 7	553.6	6.9	560.5	280.4	-	280.4
Operating Expenses	5, 7	(316.6)	3.3	(313.3)	(269.2)	(15.6)	(284.8)
Rent	5	4.0	-	4.0	2.7	-	2.7
Other Income	6	21.5	-	21.5	47.1	-	47.1
Depreciation & Amortisation	5, 7	(147.0)	(0.3)	(147.3)	(148.9)	(8.7)	(157.6)
Profit on disposal of fixed assets	7	-	20.3	20.3	-	31.3	31.3
Operating Profit / (Loss)		115.5	30.2	145.7	(87.9)	7.0	(80.9)
Finance Costs	7, 9	(201.1)	-	(201.1)	(182.7)	(0.5)	(183.2)
Finance Income	10	21.6	-	21.6	17.2	-	17.2
Other Gains	7, 11	-	-	-	-	85.7	85.7
Loss before Tax		(64.0)	30.2	(33.8)	(253.4)	92.2	(161.2)
Income Tax expense	12	-	(4.0)	(4.0)	(6.4)	-	(6.4)
Loss for the year		(64.0)	26.2	(37.8)	(259.8)	92.2	(167.6)

The Glossary on pages 79 to 83 provides further detailed reconciliation of the above measures to the alternative performance measures.

Memorandum - EBITDA (adjusted)⁽²⁾

	2021 £m	2020 £m
Underlying Operating Profit / (Loss)	115.5	(87.9)
Add back underlying depreciation & amortisation	147.0	148.9
Rent payable adjustment ⁽¹⁾	(179.4)	(131.4)
EBITDA (adjusted)⁽²⁾	83.1	(70.4)

(1) Since the adoption of IFRS 16, operating lease rent is no longer charged to the statutory profit & loss account. Rent payable adjustment reflects 'Before IFRS 16' rental amounts accrued adjusted for rent free periods by spreading these over the period to the next rent review date and recognises the reductions resulting from the CVA in line with the actual rent paid in respect of each year.

(2) EBITDA (adjusted) = Earnings before interest, tax, depreciation and amortisation, and before rent phasing adjustment, non-underlying items and reflective of the position in line with the historic accounting principles (before IFRS 16). This measure reflects the rent reductions following the CVA which completed on 19 June 2020, recognised in line with the cash benefit. Non-underlying items have been removed as they relate to non-recurring, one-off items.

TRAVELODGE HOTELS LIMITED**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021**

	2021	2020
	£m	£m
Loss for the year	(37.8)	(167.6)
Other comprehensive expense for the year, net of tax	-	-
Total comprehensive expense for the year	<u>(37.8)</u>	<u>(167.6)</u>

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Share Capital £m	Accumulated Losses £m	Total Equity £m
At 1 January 2021	300.0	(274.8)	25.2
Loss for the Year	-	(37.8)	(37.8)
Other Comprehensive Expense	-	-	-
Total Comprehensive Expense	<u>-</u>	<u>(37.8)</u>	<u>(37.8)</u>
At 31 December 2021	<u>300.0</u>	<u>(312.6)</u>	<u>(12.6)</u>

FOR THE YEAR ENDED 31 DECEMBER 2020

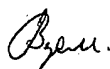
	Share Capital £m	Accumulated Losses £m	Total Equity £m
At 1 January 2020	300.0	(107.2)	192.8
Loss for the Year	-	(167.6)	(167.6)
Other Comprehensive Expense	-	-	-
Total Comprehensive Expense	<u>-</u>	<u>(167.6)</u>	<u>(167.6)</u>
At 31 December 2020	<u>300.0</u>	<u>(274.8)</u>	<u>25.2</u>

TRAVELODGE HOTELS LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2021

	Note	2021 £m	2020 £m
NON CURRENT ASSETS			
Investments	13	-	-
Intangible assets	14	12.9	16.2
Property, plant and equipment	15	102.2	120.1
Right of use assets	16	2,089.4	2,090.6
Net deferred tax asset	22	-	-
		<u>2,204.5</u>	<u>2,226.9</u>
CURRENT ASSETS			
Inventories		1.3	0.8
Intercompany receivables	17	286.2	238.8
Trade and other receivables	18	23.6	20.8
Cash and cash equivalents	21	142.1	134.7
		<u>453.2</u>	<u>395.1</u>
TOTAL ASSETS		<u>2,657.7</u>	<u>2,622.0</u>
CURRENT LIABILITIES			
Intercompany payables	17	(92.4)	(88.5)
Trade and other payables	19	(98.8)	(92.1)
Lease liabilities	20	(45.0)	(13.4)
Provisions	23	(7.3)	-
Super senior term loan		(1.9)	-
		<u>(245.4)</u>	<u>(194.0)</u>
NON- CURRENT LIABILITIES			
Revolving credit facility		(40.0)	(40.0)
Super senior term loan		(58.5)	(58.1)
Lease liabilities	20	(2,325.7)	(2,297.6)
Net deferred tax liability	22	-	-
Provisions	23	(0.7)	(7.1)
		<u>(2,424.9)</u>	<u>(2,402.8)</u>
TOTAL LIABILITIES		<u>(2,670.3)</u>	<u>(2,596.8)</u>
NET (LIABILITIES) / ASSETS		<u>(12.6)</u>	<u>25.2</u>
EQUITY			
Called up share capital	24	300.0	300.0
Accumulated losses		(312.6)	(274.8)
TOTAL (DEFICIT) / EQUITY		<u>(12.6)</u>	<u>25.2</u>

These financial statements on pages 48 to 78 were approved by the Board of Directors on 21 April 2022 and signed on their behalf by:



Jo Boydell
Director

22 April 2022

Travelodge Hotels Limited

Company registration number 0769170

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1 GENERAL INFORMATION

Travelodge Hotels Limited (the Company) is a private company limited by share capital and was incorporated in the United Kingdom and domiciled in the United Kingdom. The address of its registered office and principal place of business are disclosed on page 1. The Company provides budget hotel accommodation throughout the United Kingdom.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Going Concern

In assessing the appropriateness of the going concern assumption, the Board has considered the possible cash requirements of the Company to the end of 2023, taking into account the impact of the pandemic, current economic and political pressures, the range of trading outcomes and mitigating actions which could be taken.

Availability of funding

As at 22 April, drawings under the Company's existing £40m revolving credit facility ("RCF") were £32m and revised covenant terms with its banking partners.

Under the revised covenant terms, the Company's existing springing covenant requirements, which apply if drawings under the RCF are £32m or more, are not tested and have been replaced with maintenance covenants from 31 March 2022 to 30 June 2023, comprising stepped quarterly net leverage tests and minimum liquidity covenants, after which the business returns back to the previous quarterly springing net leverage covenant tests, the first of which would be on 30 September 2023.

Base case scenario

The base case assumes that our hotels remain open for trading and continue to experience RevPAR recovery broadly in line with the latest available external forecasts, with RevPAR across 2022 assumed to be on average back to 2019 levels, and total revenue up 3% driven by new openings since 2019. Revenue for 2023 is modelled to grow by a further 5%.

We consider the base case to be a conservative assessment in light of current trading performance and there are a number of potential upsides and mitigations that have not been included, such as the potential for additional demand from our predominantly domestic customer base, in particular leisure demand and price increases to mitigate the impact of inflation on costs.

Under this base case scenario, the Company is expected to continue to have significant headroom relative to the total funding available to it and to comply with banking covenants where applicable.

Severe but plausible downside scenarios

Our performance will be closely linked to the recovery, the potential future impact of Covid-19 on customer behaviour and the current economic and political uncertainty. The Board has therefore considered various other severe but plausible downside scenarios, including the possibility that inflation is significantly higher than the base case and that corporate demand is slower to recover.

These downside scenarios have the following impacts:

- Higher inflation – in the event that RPI and CPI were 8% and 7% respectively for 2022, then reducing to 5% and 4% in 2023, the Group would still maintain significant headroom. Our base forecast includes contractually agreed costs for the key cost of sales categories; laundry and food, it also includes the impact of the current available forecasts for National Living Wage increases. Our energy costs are fully hedged to March 2023 and rent increases are driven predominantly by inflation linked reviews. Each lease reviewed on a five-yearly cycle and this review cycle for the estate is broadly spread evenly over a five-year period, the impact against the base case to the end of 2023 is therefore limited.
- Slower corporate recovery – in the event that the assumed recovery in 'white collar' demand, serviced predominantly through our corporate sales channels, is slower than our base forecast the Group would still maintain significant headroom. This scenario assumes corporate revenue is c. 18% further below 2019 levels compared to the base scenario, with RevPAR back c. 2% on 2019 levels in 2022.

In these severe but plausible downside scenarios, either individually or in combination, and before potential mitigation which could reasonably be expected to be available, the group retains sufficient liquidity and does not breach covenants.

Conclusion

Based on the above scenarios, taking account of reasonably possible changes in trading performance, the directors believe that it remains appropriate to adopt the going concern basis in preparing the financial statements.

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of Accounting

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' as issued by the Financial Reporting Council (FRC). These financial statements have been prepared in accordance with The Companies Act 2006 and Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101).

The Company is a wholly owned subsidiary of Full Moon Holdco 7 Limited and of its intermediate parent, Thame and London Limited. The results of the Company are included within the consolidated financial statements of Thame and London Limited, which are publicly available. Therefore the Company is exempt, by virtue of Section 400 of the Companies Act 2006, from the requirement to prepare consolidated financial statements.

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

The Company faces certain financial risks relating to credit risk, liquidity and capital structure, which are managed at Group level as disclosed in note 20 of the Thame and London Limited consolidated financial statements (which are publicly available).

2.3 New and Amended standards that are not yet effective

The Company has applied the following standard and amendment for the first time for their annual reporting year commencing 1 January 2021:

- Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16

An impact assessment was performed and the amendment listed above did not have any impact on the amounts recognised in the current or prior years and is not expected to significantly affect future years (see note 19 for further details).

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting years and have not been early adopted by the Company. These standards are not expected to have a material impact on the entity in the current or future reporting years.

2.4 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 Company'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, with revenue being recognised once the booking is cancelled or the stay date passes.

Under management agreements, the Company'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.

Franchise fees are made up of a percentage of total hotel revenues, which are recognised as the underlying hotel revenues occur, and a fixed fee per reservation, recognised at booking date.

2.5 Non-underlying items

Non-underlying items relate to non-recurring, one-off items. In order to understand the underlying performance of the business, material, non-recurring items are separately disclosed as non-underlying items in note 7.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Leasing

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

The Company 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 financial 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 Company. 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 year. 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 year 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.

As a lessee

The Company 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 restoration costs are excluded from the initial cost as lease properties are continuously maintained and refurbished.

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 by the contractual terms of the leases, taking into account break clauses and lease extension options as set out above. 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.

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Company 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 year.

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

As a lessor

When the Company 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.

2.7 Foreign currencies

Transactions and balances

The presentational and functional currency of the Company is sterling. Foreign currency transactions are translated into sterling using average exchange rates over the financial year. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Taxation

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

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

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

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

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

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

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

2.9 Intangible assets

Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognised at fair value at the acquisition date. Goodwill is not amortised but reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

2.10 IT software

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

2.11 Property, plant and equipment

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

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

- Freehold land is not depreciated.
- Freehold buildings are depreciated to their estimated residual values over periods up to fifty years.
- Long leasehold buildings are depreciated to their estimated residual values over fifty years or, where shorter, their remaining lease periods.
- Fixtures and fittings are depreciated over five years for plant and machinery, fixtures, fittings, equipment and over three years for information technology hardware.
- Assets under construction are not depreciated.

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Assets under construction

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

2.13 Impairment of tangible and intangible assets

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

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

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

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

2.14 Coronavirus Job Retention Scheme (CJRS) grants

Coronavirus Job Retention Scheme (CJRS) grants were received in 2021 and 2020 in respect of furloughed staff for the purpose of providing immediate financial support to the Group as a result of Covid-19 pandemic. These grants are not recognised until there is reasonable assurance that the Group has complied with the conditions attaching to them and that the grants will be received. CJRS grants are recognised in other income in the profit or loss in the same year in which the expense was incurred.

2.15 Derivative financial instruments and hedge accounting

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

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

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

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

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

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance. See note 18 for further information about the Company's accounting for trade receivables.

2.16 Cash and cash equivalents

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

2.17 Financial liabilities and equity

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

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

2.18 Trade payables

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

2.19 Pension costs

The Company offers a defined contribution scheme to its employees by way of recommending a third party stakeholder scheme with The Scottish Widows plc and the National Employment Savings Trust (NEST). The amount charged to the income statement for this scheme in respect of pension costs and other post-retirement benefits is the contributions payable by the Company in respect of the year. Differences between Company contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

2.20 Provisions

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

2.21 Share Capital

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

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

3 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTIES

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

3.1 Lease liabilities and Right of use assets

Lease term

Management use judgement in determining the appropriate lease terms to apply upon inception or when lease modifications are calculated.

Travelodge considers it reasonably certain that Landlords will exercise the options granted to them under the 2012 and 2020 CVA agreements to extend leases, e.g., for a further 3, 5 or 7 years. For affected leases the extension period has been added to the non-cancellable period of the lease term in calculating the Lease liability and Right of use asset.

In leases where Travelodge, as Tenant, has the option to renew for a further 25 or 35 years upon expiry of the lease, management do not believe a such a determination can be made at this time with reasonable certainty, and for such leases this extension period has not been added to the non-cancellable period of the lease term in calculating the Lease liability and Right of use asset.

If a 3-year extension or deduction was applied across the Travelodge estate the total value of Right of use assets and Lease liabilities will increase by £82.6m or reduce by £107.5m respectively.

Discount rate

Management use estimation in determining the appropriate discount rates to apply upon inception or when lease modifications are calculated.

If a 1% increase or deduction in discount rate was applied across the Travelodge estate the total value of Right of use assets and Lease liabilities will decrease by £178.0m or increase by £201.9m respectively.

4 REVENUE

Revenue of £560.5m (2020: £280.4m) represents amounts derived from the provision of goods and services wholly within the UK and Ireland which fall within the Company's ordinary activities after the deduction of trade discounts and value added tax. All revenue relates to the principal activity of the Company, which is the supply of hotel rooms.

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

5 NET OPERATING EXPENSES

	2021 £m	2020 £m
Cost of goods sold	26.5	17.1
Employee costs (note 8)	169.1	156.8
Fees payable to the Company auditors ⁽¹⁾		
- audit for the financial statements	0.2	0.2
- non-audit services	-	-
Operating expenses ⁽³⁾	<u>117.5</u>	<u>110.7</u>
Net operating expenses before rent, depreciation, amortisation, impairment and profit on disposal	313.3	284.8
Rent payable (third party landlords) ⁽²⁾	0.2	0.6
Rent receivable	<u>(4.2)</u>	<u>(3.3)</u>
Net rent	(4.0)	(2.7)
Other income (note 6)	(21.5)	(47.1)
Net operating expenses before depreciation, amortisation, impairment and profit on disposal	287.8	235.0
Depreciation	141.9	144.2
Amortisation	5.1	4.7
Impairment of intangible assets, property plant & equipment and right of use assets ⁽³⁾	0.3	8.7
Net depreciation, amortisation and impairment	<u>147.3</u>	<u>157.6</u>
Profit on disposal of fixed assets ⁽³⁾	(20.3)	(31.3)
Total net operating expenses	<u><u>414.8</u></u>	<u><u>361.3</u></u>

- (1) Fees payable for the audit of the Company were £0.2m (2020: £0.2m). During the year the Company also paid £nil (2020: £nil) on behalf of other group companies for the audit of their financial statements. Non-audit services of £nil (2020: £27k) were incurred, primarily relating to advisory services in relation to Gender Pay Gap reporting and tax compliance services.
- (2) Statutory rent payable of £0.2m (2020: £0.6m) relates to £0.2m (2020: £0.6m) of variable lease payments that are not included within right of use assets.
- (3) Includes non-underlying items (note 7).

The Company benefited approximately £21m (2020: £29m) from the hospitality paying business rates holiday and received business grants of c. £10m (2020: c. £1m) due to Covid-19 relief from the government.

6 OTHER INCOME

	2021 £m	2020 £m
CJRS Income ⁽¹⁾	20.9	45.3
Insurance claims income	0.1	1.4
Other income	<u>0.5</u>	<u>0.4</u>
Total other income	<u><u>21.5</u></u>	<u><u>47.1</u></u>

- (1) This relates to grants received in respect of the UK Government's Coronavirus Job Retention Scheme (CJRS).

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

7 NON-UNDERLYING ITEMS

	2021 £m	2020 £m
Release of expired vouchers issued in relation to cancelled stays during periods of lockdown	6.9	-
Revenue	<u>6.9</u>	<u>-</u>
Provision reassessment and legal and professional fees and management incentives in connection with the initial landlord consensual proposal, subsequent CVA and other corporate activity	3.3	(15.6)
Operating income / (expenses)	<u>3.3</u>	<u>(15.6)</u>
Impairment of intangible assets, property plant & equipment and right of use assets	(0.3)	(8.7)
Depreciation & amortisation	<u>(0.3)</u>	<u>(8.7)</u>
Profit on disposal of assets	20.3	31.3
Profit on disposal of assets	<u>20.3</u>	<u>31.3</u>
Total non-underlying operating credit	<u>30.2</u>	<u>7.0</u>
Write off of unamortised 'take and hold' fee on repayment of revolving credit facility	-	(0.5)
Finance costs	<u>-</u>	<u>(0.5)</u>
Intercompany liability compromise	-	85.7
Other gains	<u>-</u>	<u>85.7</u>
Total non-underlying credit before taxation	<u>30.2</u>	<u>92.2</u>
Provision for estimated tax liability	(4.0)	-
Total non-underlying credit	<u>26.2</u>	<u>92.2</u>

Non-underlying items (before taxation) were a credit of £30.2m for the year ended 31 December 2021, being a £20.3m profit on disposal of assets where break clauses were instigated as a direct result of the CVA, a £6.9m write off of expired vouchers issued in relation to cancelled stays during periods of lockdown and other provision reassessments of £3.3m, partially offset by £(0.3)m for the impairment of fixed assets.

There was a non-underlying tax charge of £(4.0)m in the year ended 31 December 2021 in respect of a provision set up for the estimated liability arising from settlement of an ongoing HMRC enquiry into prior periods.

The non-underlying credit (before taxation) of £92.2m for the year ended 31 December 2020 includes a £85.7m gain in relation to the compromise of the intercompany liability with Full Moon Holdco 6 as agreed in the CVA, a profit on the disposal of assets (which was a finance lease under previous IFRS) and the net profit on disposal of leases where break clauses were instigated as a direct result of the CVA, partially offset by a £(8.7)m charge for the impairment of intangible assets, property, plant and equipment, as well as legal and professional fees in connection with the initial landlord consensual proposal, subsequent CVA and other corporate activity, the establishment of a £1m compromised creditor fund following the CVA and management incentives and costs related to the refinancing activity during the year.

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

8 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2021 £m	2020 £m
Directors' emoluments		
Directors' emoluments	3.4	1.8
Fees	-	-
Pension costs	-	-
Compensation for loss of office	-	-
Total	<u>3.4</u>	<u>1.8</u>
Remuneration of the Chairman	<u>0.5</u>	<u>0.1</u>
Remuneration of the highest paid Director	<u>1.5</u>	<u>1.4</u>
	Number	Number
Number of Directors accruing benefits under the defined contribution scheme	<u>-</u>	<u>-</u>

	2021 £m	2020 £m
Employees costs during the year (including Directors)		
Wages and salaries	156.0	144.7
Social security costs	9.0	8.1
Other pension costs	4.1	4.0
Total employee costs	<u>169.1</u>	<u>156.8</u>

There were non-underlying charges of £nil (2020: £0.6m) for directors' emoluments (which exclude employer's national insurance) in respect of incentives payable in relation to the refinancing and other exceptional corporate activities. These costs have been borne by another Group company.

In 2021, £2.8m (2020: £3.2m) employee costs were capitalised during the year in respect of employees working on IT and hotel refit capital projects.

	2021 Number	2020 Number
Average FTE number of persons employed⁽¹⁾		
- Monthly	1,429	1,321
- Weekly	<u>3,916</u>	<u>2,974</u>
	<u>5,345</u>	<u>4,295</u>
	2021 Number	2020 Number
Total number of persons employed⁽²⁾	<u>10,458</u>	<u>10,712</u>

The total number of employees in 2021 includes all employees whether full time or part time. The average FTE number of employees has been calculated as the average FTE number of people who were included on the Company's payroll during the year.

(1) Average FTE number of persons employed includes executive Directors.

(2) Total number of persons employed includes executive Directors.

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

9 FINANCE COSTS

	2021 £m	2020 £m
Finance fees ⁽¹⁾	1.1	0.7
Unwinding of discount on provisions	0.1	-
Interest on bank loans	7.7	2.5
Interest payable to Group undertakings	9.9	6.5
Interest on lease liabilities	182.3	173.5
Finance costs	<u>201.1</u>	<u>183.2</u>

(1) Finance fees in 2021 include £nil (2020: £0.5m) of non-underlying items in relation to the write off of the unamortised 'take and hold' fee on repayment of revolving credit facility.

10 FINANCE INCOME

	2021 £m	2020 £m
Bank interest receivable	-	0.2
Interest on related party loans (note 27)	0.2	0.1
Interest receivable from Group undertakings	21.4	16.9
Finance Income	<u>21.6</u>	<u>17.2</u>

11 OTHER GAINS

	2021 £m	2020 £m
Intercompany liability compromise	-	85.7
Other Gains	<u>-</u>	<u>85.7</u>

The CVA compromised the intercompany liability with Full Moon Holdco 6 by 50% of the net balance outstanding at 19 June 2020.

12 INCOME TAX EXPENSE

	2021 £m	2020 £m
Current tax		
Provision for uncertain tax position	4.0	-
UK Corporation tax	-	-
Foreign tax	-	-
Total current tax charge	<u>4.0</u>	<u>-</u>
Deferred tax		
Origination and reversal of temporary timing differences	-	8.3
Adjustment in respect of previous years	-	(1.0)
Effect of change in tax rate	-	(0.9)
Total deferred tax charge / (credit) (note 22)	<u>-</u>	<u>6.4</u>
Total tax charge / (credit)	<u>4.0</u>	<u>6.4</u>

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

12 INCOME TAX EXPENSE (CONTINUED)

The main rate of UK corporation tax was 19.0%.

Deferred tax balances have been measured at a rate of 25.0% (2020: 19.0%), being the rate substantively enacted at the balance sheet date.

Current Corporation tax is calculated at 19.0% (2020: 19.0%) of the estimated assessable profit for the year.

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

	2021 £m	2020 £m
Loss before tax	(33.8)	(161.2)
Tax at the UK corporation tax rate of 19.0% (2020: 19.0%)	(6.4)	(30.6)
<i>Effects of:</i>		
Adjustments in respect of prior years	-	(1.0)
Expenses not deductible	1.4	2.0
Income not taxable	(0.4)	(16.3)
Losses not recognised as deferred tax assets	5.4	53.2
Tax rate changes	-	(0.9)
Provision for uncertain tax position	4.0	-
Total tax charge / (credit) for the year	<u>4.0</u>	<u>6.4</u>

There was a non-underlying tax charge of £4.0m in the year ended 31 December 2021 in respect of a provision set up for the estimated liability arising from settlement of an ongoing HMRC enquiry into prior periods.

13 INVESTMENTS

**Ordinary shares
in subsidiaries
£m**

Balance at 31 December 2020 and 31 December 2021

-
-

Investments held as fixed assets at 31 December 2021 and 31 December 2020 constitute ordinary shares in a subsidiary undertaking which are listed below:

Name of subsidiary undertaking	Registered address	Business description	Country of Incorporation	% of equity held
Travelodge Holdings (Malta) Limited *	The Landmark, Level 1, Suite 2, Triq L-Iljun, Qormi QRM3800, Malta	Holding company	Malta	100.0
FullMoonPropco1 Limited*	Sleepy Hollow, Aylesbury Road, Thame, Oxon, OX9 3AT	Trading company	Great Britain	100.0

* Denotes direct investment

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

13 INTANGIBLE ASSETS

An analysis of intangible assets for the year ended and as at 31 December 2021 is given below:

	Goodwill £m	Assets under construction ⁽¹⁾ £m	IT Software ⁽²⁾ £m	Total £m
Cost				
At 1 January 2021	3.9	3.0	15.3	22.2
Capital expenditure	-	5.0	-	5.0
Movement on capital creditors	-	0.1	-	0.1
Transfers between categories ⁽³⁾	-	(5.6)	2.3	(3.3)
Write off fully depreciated assets	-	-	(3.5)	(3.5)
At 31 December 2021	<u>3.9</u>	<u>2.5</u>	<u>14.1</u>	<u>20.5</u>
Accumulated amortisation				
At 1 January 2021	(0.2)	-	(5.8)	(6.0)
Charge for the year	-	-	(5.1)	(5.1)
Write off fully depreciated assets	-	-	3.5	3.5
Impairment	-	-	-	-
At 31 December 2021	<u>(0.2)</u>	<u>-</u>	<u>(7.4)</u>	<u>(7.6)</u>
Carrying amount				
At 31 December 2021	<u>3.7</u>	<u>2.5</u>	<u>6.7</u>	<u>12.9</u>
At 31 December 2020	<u>3.7</u>	<u>3.0</u>	<u>9.5</u>	<u>16.2</u>

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

14 INTANGIBLE ASSETS (CONTINUED)

An analysis of intangible assets for the year ended 31 December 2020 is given below:

	Goodwill £m	Assets under construction ⁽¹⁾ £m	IT Software ⁽²⁾ £m	Total £m
Cost				
At 1 January 2020	3.9	5.6	13.5	23.0
Capital expenditure	-	4.1	-	4.1
Transfers between categories ⁽³⁾	-	(6.7)	5.1	(1.6)
Write off fully depreciated assets	-	-	(3.3)	(3.3)
At 31 December 2020	<u>3.9</u>	<u>3.0</u>	<u>15.3</u>	<u>22.2</u>
Accumulated amortisation				
At 1 January 2020	-	-	(4.4)	(4.4)
Charge for the year	-	-	(4.7)	(4.7)
Write off fully depreciated assets	-	-	3.3	3.3
Impairment	(0.2)	-	-	(0.2)
At 31 December 2020	<u>(0.2)</u>	<u>-</u>	<u>(5.8)</u>	<u>(6.0)</u>
Carrying amount				
At 31 December 2020	<u>3.7</u>	<u>3.0</u>	<u>9.5</u>	<u>16.2</u>
At 31 December 2019	<u>3.9</u>	<u>5.6</u>	<u>9.1</u>	<u>18.6</u>

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

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

(3) Transfers between categories include £3.3m (2020: £1.6m) of leasehold premiums reclassified to right of use assets.

In line with its accounting policy, the Company 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 Company's year end of 31 December. Goodwill is allocated to cash generating units and any impairments are allocated against goodwill first.

As a result of this review, an impairment charge of £nil (2020: £0.2m) has been made in the year.

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

15 PROPERTY, PLANT AND EQUIPMENT

An analysis of property, plant and equipment for the year ended 31 December 2021 is given below:

	Assets under construction ⁽¹⁾ £m	Freehold land, freehold and long leasehold buildings ⁽²⁾ £m	Fixtures and fittings ⁽³⁾ £m	Total £m
Cost				
At 1 January 2021	1.5	2.5	205.8	209.8
Additions - Capital expenditure	29.4	-	-	29.4
Movement on capital creditors ⁽⁴⁾	-	-	(1.5)	(1.5)
Reclassification	(28.6)	-	28.6	-
Write off fully depreciated assets	-	-	(25.4)	(25.4)
Disposals	-	-	(4.4)	(4.4)
At 31 December 2021	<u>2.3</u>	<u>2.5</u>	<u>203.1</u>	<u>207.9</u>
Accumulated depreciation				
At 1 January 2021	-	(0.9)	(88.8)	(89.7)
Charge for the year	-	-	(44.8)	(44.8)
Write off depreciation on fully depreciated assets	-	-	25.4	25.4
Disposals	-	-	3.5	3.5
Impairment	-	-	(0.1)	(0.1)
At 31 December 2021	<u>-</u>	<u>(0.9)</u>	<u>(104.8)</u>	<u>(105.7)</u>
Carrying amount				
At 31 December 2021	<u>2.3</u>	<u>1.6</u>	<u>98.3</u>	<u>102.2</u>
At 31 December 2020	<u>1.5</u>	<u>1.6</u>	<u>117.0</u>	<u>120.1</u>

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

An analysis of property, plant and equipment for the year ended 31 December 2020 is given below:

	Assets under construction ⁽¹⁾ £m	Freehold land, freehold and long leasehold buildings ⁽²⁾ £m	Fixtures and fittings ⁽³⁾ £m	Total £m
Cost				
At 1 January 2020	3.0	2.5	223.6	229.1
Additions - Capital expenditure	31.6	-	-	31.6
Movement on capital creditors ⁽⁴⁾	-	-	(1.5)	(1.5)
Reclassification	(32.8)	-	32.8	-
Write off fully depreciated assets	-	-	(41.5)	(41.5)
Disposals	(0.3)	-	(7.6)	(7.9)
At 31 December 2020	<u>1.5</u>	<u>2.5</u>	<u>205.8</u>	<u>209.8</u>
Accumulated depreciation				
At 1 January 2020	-	(0.9)	(95.7)	(96.6)
Charge for the year	-	-	(37.6)	(37.6)
Write off depreciation on fully depreciated assets	-	-	41.5	41.5
Disposals	-	-	3.5	3.5
Impairment	-	-	(0.5)	(0.5)
At 31 December 2020	<u>-</u>	<u>(0.9)</u>	<u>(88.8)</u>	<u>(89.7)</u>
Carrying amount				
At 31 December 2020	<u>1.5</u>	<u>1.6</u>	<u>117.0</u>	<u>120.1</u>
At 31 December 2019	<u>3.0</u>	<u>1.6</u>	<u>127.9</u>	<u>132.5</u>

(1) Assets under construction predominantly consists of on-going maintenance and refit project work. Once complete the costs are transferred to the appropriate asset category.

(2) Freehold, freehold and long leasehold buildings include freehold land stated at cost of £20,100 (2020: £20,100) which is not depreciated. Freehold land and long leasehold properties are stated at cost. Depreciation is provided on cost in equal annual instalments over the estimated remaining useful lives of the assets.

(3) Fixtures and fittings are initially measured at cost and are depreciated over three to five years.

(4) Movement on capital creditors represents the year on year movement in accrued capital expenditure at year end.

In line with its accounting policy, the Company 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 Company's year end of 31 December.

In order to form an estimate of the value in use, the Company prepares cash flow forecasts derived from the most recent financial budgets and financial plans approved by the Directors and extrapolates cash flows beyond this time based on an estimated long term growth rate of 2.0% (2020: 2.0%). 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 Company's financial projections and the assumptions which underpin those projections including future growth of the budget hotel sector, brand demand and occupancy.

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The long term growth rate assumption has been considered with reference to the compound annual growth rate collated by Smith Travel Research for the hotel sector over an 18-year period. In general, the midscale & economy sector, of which Travelodge is part, outperforms the rest of the hotel sector, nevertheless, a significant element of prudence was applied by the Company in selecting a rate below the long term average.

The discount rate assumption has been calculated with reference to the market-weighted average pre-tax cost of capital based on a portfolio of similar hotel businesses using the Capital Asset Pricing Model as a starting point.

As permitted by the IAS 36, this is then adjusted to reflect the estimated incremental borrowing cost of leasing for each asset based on market rates at the date of the review, in line with the methodology for assessing the variation in the discount rate by asset used to calculate the discount rate which has been used to derive the lease liabilities included on the balance sheet as a result of IFRS 16. This resulted in a weighted average pre-tax discount rate of 7.1% (2020: 10.6%).

The availability of comparable market data has improved over time since the introduction of IFRS16 and this has allowed the Group to refine the inputs for each source of capital based on market participant data compared to flexed Travelodge weighted average cost of capital previously used as a basis, resulting in the decrease in pre-tax discount rate year on year.

As a result of this review, an impairment charge of £0.1m (2020: £0.5m) has been made in the year.

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

16 RIGHT OF USE ASSETS

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

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 Company 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 Company's year end of 31 December.

As a result of this review, an impairment charge of £0.2m (2020: £8.0m) has been made in the year. Please refer to Note 3.1 for a discussion of the estimates and judgements which underpin this charge together with a sensitivity analysis for changes to those assumptions.

An analysis of Right of use assets for the year ended 31 December 2021 is given below:

	Property £m	Total £m
Cost		
At 1 January 2021	2,773.3	2,773.3
New leases	75.7	75.7
Transfers ⁽¹⁾	3.3	3.3
Rent reviews and adjustments	38.7	38.7
Disposals	(43.6)	(43.6)
At 31 December 2021	<u>2,847.4</u>	<u>2,847.4</u>
Accumulated depreciation		
At 1 January 2021	(682.7)	(682.7)
Depreciation charge for the year	(97.1)	(97.1)
Disposals	22.0	22.0
Impairment	(0.2)	(0.2)
At 31 December 2021	<u>(758.0)</u>	<u>(758.0)</u>
Carrying amount		
At 31 December 2021	<u>2,089.4</u>	<u>2,089.4</u>
At 31 December 2020	<u>2,090.6</u>	<u>2,090.6</u>

TRAVELODGE HOTELS LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)****16 RIGHT OF USE ASSETS (CONTINUED)**

An analysis of Right of use assets for the year ended 31 December 2020 is given below:

	Property £m	Total £m
Cost		
At 1 January 2020	3,088.7	3,088.7
New leases	79.1	79.1
Transfers ⁽¹⁾	1.6	1.6
Rent reviews and adjustments	(305.6)	(305.6)
Disposals	(90.5)	(90.5)
At 31 December 2020	<u>2,773.3</u>	<u>2,773.3</u>
Accumulated depreciation		
At 1 January 2020	(600.4)	(600.4)
Depreciation charge for the year	(106.6)	(106.6)
Disposals	32.3	32.3
Impairment	(8.0)	(8.0)
At 31 December 2020	<u>(682.7)</u>	<u>(682.7)</u>
Carrying amount		
At 31 December 2020	<u>2,090.6</u>	<u>2,090.6</u>
At 31 December 2019	<u>2,488.3</u>	<u>2,488.3</u>

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

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

17 INTERCOMPANY RECEIVABLES AND PAYABLES

Intercompany receivables

As part of the funding of the Travelodge Group, the Company makes loans to other Group companies which are used by these companies to settle other bank and bond interest obligations. Amounts owed by Group undertakings relate to these outstanding balances and associated interest charges owing from those companies. The amounts are unsecured and repayable on demand. An interest rate of 0 - 10% (2020: 0 - 9%) is charged on balances between Group undertakings.

Intercompany payables

As part of the funding of the Travelodge Group, the Company has received loans from other Group companies resulting from the drawdown on certain bank and bond facilities. Amounts payable to Group undertakings relate to these outstanding balances and associated interest charges owing to those companies. The amounts are unsecured and repayable on demand. An interest rate of 0 - 15% (2020: 0 - 16%) is charged on balances between Group undertakings.

The CVA compromised the intercompany liability with Full Moon Holdco 6 by 50% of the net balance outstanding at 19 June 2020 resulting in an £85.7m gain on write off in 2020 (note 11).

An analysis of intercompany receivables and payables is presented below:

	2021 £m	2020 £m
Intercompany receivables	<u>286.2</u>	<u>238.8</u>
Intercompany payables	<u>(92.4)</u>	<u>(88.5)</u>

18 TRADE AND OTHER RECEIVABLES

	2021 £m	2020 £m
Amounts due within 1 year:		
Trade amounts receivable		
- Gross amount receivable	7.5	8.0
- Expected credit losses	(0.3)	(0.2)
- Net amounts receivable	<u>7.2</u>	<u>7.8</u>
Other amounts receivable	1.4	1.2
Other taxation	3.2	-
Accrued income ⁽²⁾	1.7	5.0
Prepayments ⁽¹⁾	7.6	4.7
Loans to related parties (note 27)	2.5	2.1
Total	<u>23.6</u>	<u>20.8</u>

(1) Prepayments mainly include prepayments of rent and rates.

(2) Accrued income is made up of £0.7m (2020: £0.2m) of accrued income, £0.6m (2020: £nil) accrued rent receivable, £0.4m (2020: £0.4m) accrued supplier rebates and £nil (2020: £4.4m) of accrued grants-in relation to the UK Government's Coronavirus Job Retention Scheme (CJRS).

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

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The Company estimates expected credit losses based on historical experience.

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

18 TRADE AND OTHER RECEIVABLES (CONTINUED)

Trade Receivable Ageing

	2021 £m	2020 £m
Current	6.8	4.3
Past due		
30 days	0.1	0.1
60 days	0.1	1.4
90+ days	0.5	2.2
Total	<u>7.5</u>	<u>8.0</u>

19 TRADE AND OTHER PAYABLES

	2021 £m	2020 £m
Trade payables	(7.4)	(5.2)
Other payables ⁽¹⁾	(5.2)	(8.3)
Social security and other taxation	(2.2)	(7.4)
Accruals	(52.5)	(41.8)
Deferred income	(0.7)	(1.1)
Contract liabilities - Prepaid room purchases ⁽²⁾	(27.9)	(24.0)
Capital payables	(2.9)	(4.3)
Amounts falling due within one year	<u>(98.8)</u>	<u>(92.1)</u>
Amounts falling due after one year		
Accruals	-	-
Total	<u>(98.8)</u>	<u>(92.1)</u>

(1) Other payables include bank interest accrued, term loan issue costs accrued and pension fund contributions.

(2) Prepaid room purchases of £27.9m (2020: £24.0m) relate to cash received at the time of room booking prior to arrival date and is recognised when customers stay. 44.4% (2020: 39.5%) would be non-refundable on cancellation of the room booking, with revenue being recognised once the booking is cancelled, the stay date passes or the voucher expires. Customer stays are within 1 year of the booking date so contract liabilities at the start of the year are recognised within revenue in the year. Prepaid room purchases increased in 2021 due to the trading recovery following the relaxation of covid restrictions.

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

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

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

20 LEASE LIABILITIES

	2021 £m	2020 £m
Opening Balance	(2,311.0)	(2,561.7)
New leases	(75.7)	(79.1)
Lease Adjustments ⁽¹⁾	(38.7)	305.6
Finance Costs	(182.3)	(173.5)
Payments	194.0	117.4
Disposals ⁽²⁾	43.0	80.3
Closing Balance	<u>(2,370.7)</u>	<u>(2,311.0)</u>
Amounts falling due within one year	(45.0)	(13.4)
Amounts falling after one year	(2,325.7)	(2,297.6)
	<u>(2,370.7)</u>	<u>(2,311.0)</u>

(1) In 2020 these include the effect of lease modifications following the CVA.

(2) Disposals relate to leases where break clauses were instigated as a direct result of the CVA. In addition 2020 includes the impact of the surrender of a property lease.

Lease adjustments of £(38.7)m in 2021 mainly consist of rent reviews. Lease adjustments of £305.6m in 2020 include CVA modifications at 20 June 2020 of £394.4m, adjusted for by subsequent revisions as a result of landlords exercising their options under the CVA to extend leases, together with other lease adjustments in the normal course of business, mainly rent reviews.

Under the terms of the company voluntary arrangement, which was approved on 19 June 2020, the Group benefited from a temporary period of rent reductions for certain assets in the portfolio to the end of 2021 and the landlords of these assets were entitled to enter into extension options in relation to those leases. As the reductions extended beyond 30 June 2021, they did not qualify for the practical expedient as originally set out by the International Accounting Standards Board and were, therefore, assessed as modifications.

As a result of this treatment as a modification, leases were reassessed based on future projected rent cash flows, together with the impact of any lease extension options entered into, and the discount rates used were also reassessed as at June 2020, when the CVA took effect. This resulted in a total reduction in both the lease liability and right of use asset totalling £394.4m, which comprises the effect of the temporary period of rent reductions of approximately £142.4m, together with the reduction due to the increase in the weighted average discount rate for the affected leases from 7.1% to 9.4%.

Lease liabilities are based on discounted future committed lease payments and therefore do not include the impact of variable lease components, short-term and low value leases. Further information regarding these payments is provided below.

Lease liabilities have been discounted at a weighted average discount rate of 8.88% (2020: 8.9%) with a range between 5.0% and 11.0% (2020: 5.0% to 11.0%) and represent leases with a weighted average remaining length, including landlord extension options, from the balance sheet date of 23.3 years (2020: 23.2 years).

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

20 LEASE LIABILITIES (CONTINUED)

Details of lease payments made in the year and charged to the Income Statement are given below:

Lease payments charged/ (credited) to Income Statement

Year ended 31 December 2021	Total 2021 £m
Income from subleasing right of use assets	(4.2)
	<u>(4.2)</u>
Year ended 31 December 2020	Total 2020 £m
Variable lease payments charge not included within right of use assets	0.4
Income from subleasing right of use assets	(3.3)
	<u>(2.9)</u>

The total cash outflow for leases in 2021 was £194.1m (2020: £117.4m).

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

21 FINANCIAL ASSETS AND LIABILITIES

Financial instrument categories	2021 £m	2020 £m
Cash and cash equivalents	142.1	134.7
Financial assets at amortised cost ⁽¹⁾	297.3	249.9
Revolving credit facility	(40.0)	(40.0)
Super senior term loan	(63.1)	(61.9)
Financial liabilities ⁽²⁾	<u>(2,531.1)</u>	<u>(2,459.1)</u>
Net funding including finance leases	<u>(2,194.8)</u>	<u>(2,176.4)</u>

(1) Financial assets at amortised cost of £297.3m (2020: £249.9m) are made up of Intercompany receivables of £286.2m (2020: £238.8m), trade receivables £7.2m (2020: £7.8m), other receivables of £1.4m (2020: £1.2m) and loans to related parties of £2.5m (2020: £2.1m).

(2) Financial liabilities of £2,531.1m (2020: £2,459.1m) are made up of lease liabilities of £2,370.7m (2020: £2,311.0m), intercompany payables of £92.4m (2020: £88.5m), trade payables of £7.4m (2020: £5.2m), capital payables of £2.9m (2020: £4.3m), accruals of £52.5m (2020: £41.8m) and other payables of £5.2m (2020: £8.3m).

The lease liabilities represent the present value of future lease payments in respect of the right of use assets.

Revolving credit facility and super senior term loan

At the balance sheet date, a sterling denominated revolving credit facility of £40m (2020: £40m) was available to the Company until July 2024 and £40m (2020: £40m) drawings on this facility had been made.

On 20 April 2020, the Company entered into a new super senior £60m revolving credit facility agreement with certain financial institutions that are indirect shareholders (or affiliates thereof), available to the Company until May 2022. An initial drawdown of £30m was made on that date.

The proceeds of the new facility were used to fund our general corporate and working capital requirements. Fees and interest were payable in kind and were contingent on an initial drawdown. There were various conditions precedent to funding, including a requirement to obtain a rent payment agreement with landlords of the Company.

A 'take and hold' fee of £0.6m was incurred in respect to the initial drawdown of £30m. This fee was capitalised and deemed to form a new loan under the facility and was being amortised over the life of the facility in line with generally accepted accounting practice.

On 16 November 2020, the Company entered into an amended and restated agreement in the form of a super senior term loan of £60m, available to the Company until July 2024.

On 1 December 2020, the Company repaid both the initial drawdown on the super senior revolving credit facility of £30m and the related 'take and hold' fee of £0.6m, as well as accrued interest of £1.3m. On the same date, the new super senior term loan of £60m was drawn in full.

An OID fee of £1.9m was incurred in respect to the drawdown of £60m. This was paid in January 2022. This fee has been capitalised and deemed to form a new loan under the facility and is being amortised over the life of the facility in line with generally accepted accounting practice.

Further loan issue costs of approximately £2.0m will be amortised over the life of the facility in line with generally accepted accounting practice.

As a result of the Bank of England's discontinuation of LIBOR, certain amendments have been agreed with all relevant counterparties to effectuate a reference rate transition from LIBOR to Sterling Overnight Index Average (SONIA) including margin adjustments in respect of the period from the commencement date of the first interest period commencing on or after 31 December 2021 to the maturity date.

The Company has taken advantage of the reduced disclosures allowed by paragraph 8 (d) of FRS 101 and has not included disclosures otherwise required under IFRS 7 in these financial statements. Equivalent disclosures for the Group can be found in note 19 of the consolidated financial statements of Thame and London Limited.

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

22 DEFERRED TAX

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

An analysis of deferred tax for the year ended 31 December 2021 is given below:

	Temporary differences trading £m	Accelerated tax depreciation £m	Deferred tax asset £m	Intangible assets £m	Deferred tax liability £m	Total £m
At January 2021	0.8	19.9	20.7	(20.7)	(20.7)	-
Credit / (charge) to income	0.4	4.7	5.1	(5.1)	(5.1)	-
At 31 December 2021	1.2	24.6	25.8	(25.8)	(25.8)	-

Amounts expected to be recovered/(settled) in:

No more than 12 months after the reporting year	-
More than 12 months after the reporting year	-
	-

The main rate of UK corporation tax was 19.0%.

In both 2021 and 2020 the deferred tax liability has been offset against the deferred tax asset, to the extent that a legal right of set-off exists.

An analysis of deferred tax for the year ended 31 December 2020 is given below:

	Temporary differences trading £m	Accelerated tax depreciation £m	Deferred tax asset £m	Intangible assets £m	Deferred tax liability £m	Total £m
At January 2020	-	26.4	26.4	(20.0)	(20.0)	6.4
Credit / (charge) to income	0.8	(6.5)	(5.7)	(0.7)	(0.7)	(6.4)
At 31 December 2020	0.8	19.9	20.7	(20.7)	(20.7)	-

Amounts expected to be recovered/(settled) in:

No more than 12 months after the reporting year	-
More than 12 months after the reporting year	-
	-

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

23 PROVISIONS

	2021 £m	2020 £m
At 1 January	(7.1)	(7.7)
Cash spend	0.1	0.2
Additional provisions recognised	(4.5)	(0.6)
Release of provisions	3.6	-
Unwinding of discount of provisions	(0.1)	-
Disposals	-	0.8
Transfer to accruals	-	0.2
At 31 December	<u>(8.0)</u>	<u>(7.1)</u>
The balance can be analysed as:		
Due in less than one year	(7.3)	-
Due in greater than one year	(0.7)	(7.1)
Total	<u>(8.0)</u>	<u>(7.1)</u>

Provisions of £8.0m (2020: £7.1m) consist of the establishment of a compromised creditors fund following the CVA of £1.0m (2020: £1.0m), public liability claims of £0.9m (2020: £0.9m), onerous contract provision on sub-leases relating to historic sub-leased restaurant units of £0.5m (2020: £0.4m), a £4.0m (2020: £nil) tax provision in relation to an estimated settlement of an HMRC enquiry and other provisions of £1.6m (2020: £4.8m).

24 CALLED UP SHARE CAPITAL

	2021 £m	2020 £m
Issued and fully paid:		
300 Million (2020: 300 Million) ordinary shares of £1 each	<u>300.0</u>	<u>300.0</u>

25 CAPITAL COMMITMENTS

Contracted future capital expenditure not provided for in these financial statements predominantly relates to expenditure on the refurbishment and maintenance of current hotels and as such relates entirely to property, plant and equipment. At 31 December 2021 the capital commitment not provided for in the financial statements, subject to satisfactory practical completion, was £7.8m (2020: £3.3m).

26 CONTINGENT LIABILITIES

Under the terms of the CVA, Travelodge Hotels Limited will make additional cash rental payments to Compromised Landlords based on the performance of the Group during its 2020, 2021 and 2022 financial years (the "Recovery Period"). If the Cumulative Recovery Period EBITDA⁽¹⁾ is greater than £200m, Travelodge Hotels Limited will distribute 66 2/3% (sixty six and two thirds per cent) of the excess amount to the Compromised Landlords.

(1) EBITDA = EBITDA (adjusted)⁽²⁾

(2) Refer to definition under the Alternative Performance Measures section.

TRAVELODGE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

27 RELATED PARTY TRANSACTIONS AND ULTIMATE CONTROLLING PARTY

At 31 December 2021, the Directors regard Anchor Holdings SCA as the ultimate parent undertaking and controlling party, a company incorporated in Luxembourg.

Thame and London Limited is the parent undertaking of the largest and smallest Group of undertakings to consolidate these financial statements at 31 December 2021. The consolidated financial statements of Thame and London Limited are available from Sleepy Hollow, Aylesbury Road, Thame, Oxfordshire, OX9 3AT.

The Company has taken advantage of the reduced disclosures allowed by paragraph 8 (k) of FRS 101 and has not presented details of transactions with related parties. Full details of related party transactions within the Group can be found in note 25 of the consolidated financial statements of Thame and London Limited.

Travelodge Hotels Limited has agreed to make loan facilities available to Anchor Holdings SCA and Anchor Holdings G.P.S.A up to a maximum of £2.2m (2020: £1.5m) and £0.6m (2020: £0.5m) respectively. At the balance sheet date, Anchor Holdings SCA and Anchor Holdings G.P.S.A had utilised £1.5m (2020: £1.2m) and £0.5m (2020: £0.4m) respectively. The loans accrue interest at 8.0% (2020: 8.0%) per annum. Interest accrued in the year was £0.1m (2020: £0.1m), all of which was unpaid. The total interest accrued at the balance sheet date was £0.6m (2020: £0.5m). The interest rate decreases to 5.1% from January 2022.

28 POST BALANCE SHEET EVENTS

Under the terms of the CVA, within 60 days of the expiry of the Rent Concession Period on 31 December 2021, Travelodge Hotels Limited was required to hold monies on trust in a non-interest bearing account (the "Compromised Creditor Fund Account"). £1m was deposited into to an account on 1 March 2022 and paid to the creditors on 31 March 2022.

TRAVELODGE HOTELS LIMITED

GLOSSARY FOR THE YEAR ENDED 31 DECEMBER 2021

ALTERNATIVE PERFORMANCE MEASURE (APM)

The Company uses the non-statutory alternative performance measure 'EBITDA (adjusted)' to monitor the financial performance of the Company internally. These measures are not statutory measures in accordance with IFRS. In addition, the Group's debt facilities contain 'frozen GAAP' clauses, so additional measures have also been provided on a 'Before IFRS 16' basis.

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

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 years 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 and rent reductions in profitability with the corresponding cash impact. Management have used the same key performance measure for many years which deducts an annual rental charge from profit, accounting for rent free periods by spreading these over the period to the next rent review. Management believe this is a useful performance measure as it more accurately reflects the cash impact of the hotel operating leases.

In line with the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority, we have provided additional information on the APMs used by the Group below, including full reconciliations back to the closest equivalent statutory measure.

TRAVELODGE HOTELS LIMITED

GLOSSARY FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

ALTERNATIVE PERFORMANCE MEASURE (APM) (CONTINUED)

Income Statement Measures

Reference	APM	Definition
I	Before IFRS 16	The performance under accounting principles prior to the adoption of IFRS 16, referred to elsewhere in this report as Alternative Performance Measures, which include EBITDA (adjusted) and clarify the adjustments required under IFRS 16.
II	EBITDA (adjusted)	Earnings before interest, tax, depreciation and amortisation, and before rent phasing adjustment, non-underlying items ^{III} and reflective of the position in line with the historic accounting principles (before IFRS 16). This measure reflects the rent reductions following the CVA which completed on 19 June 2020, recognised in line with the cash benefit. Non-underlying items have been removed as they relate to non-recurring, one-off items.
III	Non-underlying items	Non-underlying items relate to non-recurring, one-off items.
IV	Net external rent payable / receivable	Net external rent payable / receivable is the net of rent receivable and rent payable (before IFRS 16) before the rent phasing adjustment ^V . External rent payable (before IFRS 16) before the rent phasing adjustment ^V reflects the rental amounts accrued adjusted for rent free periods by spreading these over the period to the next rent review date and recognises the reductions resulting from the CVA in line with the actual rent paid in respect of each year.
V	Rent phasing adjustment	In many of our leases we receive a rent free period at the beginning of the lease term. According to the straight lining of leases principle under previous IFRS, the benefit of this rent free period is recognised in our income statement as a deduction to the actual rent expense in each year, on a straight line basis, over the full life of each lease, with the unrecognised balance being held as an accrual on our balance sheet. Similarly, any credit relating to the rent reductions resulting from the CVA is also recognised on a straight line basis over the remaining life of each lease. As a result, our total before IFRS 16 rent expense does not reflect our cash payments of rent in any year. EBITDA (adjusted) in each year recognises the portion of the rent free credit attributable to such year as if such credit were applied on a straight line basis until the next rent review, normally five years, and recognises the reductions resulting from the CVA in line with the actual rent paid in respect of each year, which more closely aligns to cash payments. EBITDA (adjusted) is the measure used for internal management reporting. The rent phasing adjustment reflects the timing difference between the rent charge for the year in our internal management reporting measure EBITDA (adjusted) and the rent charge for the year under previous IFRS.
VI	Like-for-like RevPAR Like-for-like occupancy Like-for-like average room rates	Revenue per available room, occupancy and average room rate (net of VAT) for UK hotels that have been open for at least two years at the end of the current year on a management reporting period basis. 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 day of the week and our like-for-like reporting is prepared on this basis for consistency.
VII	Frozen GAAP	The performance under accounting principles prior to the adoption of IFRS 16.

TRAVELODGE HOTELS LIMITED

GLOSSARY FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

ALTERNATIVE PERFORMANCE MEASURE (APM) (CONTINUED)

Reconciliation of Statutory Loss to EBITDA (adjusted)ⁱⁱ:

	2021 £m	2020 £m
Statutory Loss before tax	(33.8)	(161.2)
Other Gains	-	(85.7)
Net Finance Costs	179.5	166.0
Operating Profit / (Loss)	145.7	(80.9)
Non-underlying ⁱⁱⁱ Operating Items (see note 7)	(30.2)	(7.0)
Underlying Operating Profit / (Loss)	115.5	(87.9)
Depreciation, Amortisation - Underlying	147.0	148.9
Rent Payable Adjustment ⁽¹⁾	(179.4)	(131.4)
EBITDA (adjusted)ⁱⁱ	83.1	(70.4)

(1) Since the adoption of IFRS 16, operating lease rent is no longer charged to the statutory profit & loss account. Rent payable adjustment for operating leases of £179.4m (2020: £131.4m) reflects 'Before IFRS 16' rental amounts accrued adjusted for rent free periods by spreading these over the period to the next rent review date and recognises the reductions resulting from the CVA in line with the actual rent paid in respect of each year.

Finance costs

	2021 £m	2020 £m
Interest payable to Group undertakings	9.9	6.5
Finance fees ⁽¹⁾	1.1	0.4
Interest on bank loans	7.7	2.5
Interest on obligations under finance leases ⁽¹⁾	1.5	3.1
Unwinding of discount on provisions ⁽¹⁾	0.4	0.4
Finance costs (before IFRS 16ⁱ) - underlying	20.6	12.9
Non-underlying itemsⁱⁱⁱ		
Fees in relation to restructuring of debt	-	0.5
Finance costs (before IFRS 16ⁱ)	20.6	13.4
IFRS 16 adjustment⁽¹⁾	180.5	169.8
Finance costs	201.1	183.2

(1) The total IFRS 16 notional interest charge on lease liabilities is £182.4m (2020: £173.5m). The IFRS 16 adjustment includes a £1.5m (2020: £3.1m) credit in respect of interest on finance leases reclassified, a £nil (2020: £0.2m) credit in respect of interest on overdue rent (included within finance fees before IFRS) and a £0.4m (2020: £0.4m) credit in respect of unwinding of discount on provisions.

TRAVELODGE HOTELS LIMITED

GLOSSARY FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

ALTERNATIVE PERFORMANCE MEASURE (APM) (CONTINUED)

Balance Sheet Measures

Reference	APM	Definition
I	Before IFRS 16	The performance under accounting principles prior to the adoption of IFRS 16.

Onerous lease provisions

The Group has provided for operating lease rentals where these were above the market rate, causing the hotel to be loss making or where we consider it improbable that trading profits will be generated, or where the Group has subsequently vacated the property and rental income is less than the rental expense, or where it is probable that a previously sublet unit will revert to the Group. The element of the rental which is above market, causing the hotel to be loss making or where we consider it improbable that trading profits will be generated, or above any rental cost paid relating to vacated properties is charged against the provision. Provisions are also made for business rates that the Group is liable to on empty sites and on hotels where it is considered improbable that trading profits will be generated. The key estimation judgement in determining the onerous amount is the period over the remaining lease term that the property will remain either rented or vacant. The Directors have estimated these periods after considering both the quality and the location of each of the units provided for. The cash flows are discounted at 3.3% (2020: 2.8%) which represents a risk-free and pre-tax rate based on 25 year government gilt and further adjusted for property risk. Since 2019, under IFRS 16 the onerous lease provisions relating to rent are reclassified to right of use assets, leaving only the provisions relating to rates.

Obligations under finance leases (before IFRS 16¹)

The Company has 4 properties (2020: 4 properties) which have been classified as finance leases (before IFRS 16) with a weighted average lease term remaining of 43 years (2020: 44 years) including landlord options to extend leases which haven't yet been exercised.

	2021	2020
	£m	£m
Amounts payable under finance leases		
Due within one year	1.6	1.3
Due between two and five years	6.7	6.1
Due beyond five years	69.2	58.8
	<u>77.5</u>	<u>66.2</u>
Less future finance charges	(62.8)	(51.7)
Amounts due after settlement after 12 months (capital liability)	<u>14.7</u>	<u>14.5</u>

TRAVELODGE HOTELS LIMITED

GLOSSARY FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

ALTERNATIVE PERFORMANCE MEASURE (APM) (CONTINUED)

Operating Lease Commitments before IFRS 16¹

Total commitments under operating leases before IFRS 16¹ amounted to:

	2021 £m	2020 £m
Due within one year	225.4	170.6
Due between two and five years	913.0	889.8
Due beyond five years	2,969.2	3,050.2
Total	4,107.6	4,110.6
	Years	Years
Average lease term remaining	14.8	15.7

The leases are standard operating leases with normal commercial terms, typically 25 years (though a number of city centre and London properties have 35 year terms), subject to standard upward only rent reviews, with the majority based on RPI indices (though some with caps and collars, some at open market value and others based on CPI), with Company only renewal rights at the end of the lease. The figures above exclude landlord options to extend leases (which are included in the lease liability under IFRS 16 per note 20).

Contractual undiscounted lease payments - maturity analysis

	Property 2021 £m	Total 2021 £m
Within one year	227.7	227.7
Greater than one year but less than five years	903.8	903.8
Greater than five years but less than ten years	1,127.2	1,127.2
Greater than ten years but less than fifteen years	1,102.9	1,102.9
Greater than fifteen years	1,744.9	1,744.9
Total undiscounted lease payments at 31 December 2021	5,106.5	5,106.5
	Property 2020 £m	Total 2020 £m
Within one year	171.9	171.9
Greater than one year but less than five years	905.5	905.5
Greater than five years but less than ten years	1,115.8	1,115.8
Greater than ten years but less than fifteen years	969.4	969.4
Greater than fifteen years	1,366.6	1,366.6
Total undiscounted lease payments at 31 December 2020	4,529.2	4,529.2

The figures above comprise both finance and operating leases and include landlord options to extend leases which have not yet been exercised (which are included in the lease liability under IFRS 16 per note 20).