

3 August 2005

### Whitbread releases IFRS accounts for 2004/5 and 2003/4

Whitbread PLC ('the Group') today releases restated consolidated financial information for the year ended 3 March 2005, applying International Financial Reporting Standards (IFRS).

The key headlines from the restated accounts are:

- No impact on group cash flow or on ability to pay dividends
- Net Assets reduced by £385m to £1.8bn
- 2004/5 profit after tax reduces by 5%

Principle areas affected by IFRS

£m	Profit earned for ordinary shareholders	Net Assets
Share-based payments <sup>+</sup>	(1.9)	2.6
Pension accounting <sup>**</sup>	(13.4)	(311.8)
Income tax (inc. deferred tax)	(1.7)	(137.4)
Depreciation/goodwill amortisation <sup>+</sup>	8.3	7.4
Dividends <sup>+</sup>		54.6
Net impact	(8.7)	(384.6)

<sup>+</sup> Net of associated tax impact

<sup>\*</sup> Includes joint ventures and associates

The first set of results reported by Whitbread under IFRS will be the group's interim results, due for release on 25 October 2005.

There will be a conference call for analysts and investors at 10.30am (UK time). To participate please dial +44 (0)20 7365 1855.

There will be a recording of the conference call available for one month, this will be active approximately 1 hour after the conference call has finished. To access please dial +44 (0)20 7784 1024 and enter the passcode 3042926#.

From 7:30am the full text of this announcement and accompanying slides are available at [www.whitbread.co.uk/investors](http://www.whitbread.co.uk/investors)

Contact:

Dan Waugh, Investor Relations      01582 396 833

Contents:

1. Background

2. Independent Auditors' Report

3. Restated IFRS consolidated financial statements

Consolidated Income Statement for the year ended 3 March 2005

Reconciliations of earnings for the year ended 3 March 2005

Consolidated Balance Sheets as at 5 March 2004 (date of transition to IFRS) and as at 3 March 2005

Reconciliations of the balance sheet as at 5 March 2004 and 3 March 2005

Reconciliations of Reserves as at 5 March 2004 and 3 March 2005

4. Changes in accounting policy

5. Accounting policies under IFRS

1. Background

With effect from 4 March 2005 the Group will be required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Group's first Annual Report under IFRS will be for the year ended 2 March 2006, with the first published IFRS results being the Interim Report and Accounts for the six month period ended 1 September 2005. The Group is required to publish one year of comparative information, which results in a date of transition to IFRS of 5 March 2004.

Historically, the Group's financial statements have been prepared in accordance with generally accepted accounting principles in the UK (UK GAAP). The following explanatory notes and reconciliations describe the main differences between UK GAAP and IFRS that affect the Group for the financial year 2004/5 as well as for the IFRS opening balance sheet at 5 March 2004.

The accounting policies of the Group were changed on 5 March 2004 to comply with IFRS, the major changes are explained below.

The transition to IFRS has been accounted for in accordance with IFRS 1 'First-time adoption of International Financial Reporting Standards' as outlined below. In addition, where the Group has taken advantage of provisions allowing the early adoption of amendments made to IFRS that are effective for accounting periods beginning on or after 1 January 2006 this is also explained below.

This restatement document has been prepared on the basis that all IFRSs, International Financial Reporting Interpretation Committee ("IFRIC") interpretations, and current IASB exposure drafts will be issued as final standards and adopted by the European Commission. The failure of the European Commission to adopt all these standards in time for financial reporting in 2006, or the issue of further

interpretations by IFRIC in advance of the reporting date, could result in the need to change the basis of accounting or presentation of certain financial information from that presented in this document.

The UK GAAP financial information contained in this document does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The auditors have issued unqualified opinions on the Group's UK GAAP financial statements for the years ended 4 March 2004 and 3 March 2005. The UK GAAP financial statements for the year ended 4 March 2004 have been delivered to the Registrar of Companies. The UK GAAP financial statements for the year ended 3 March 2005 will be delivered to the Registrar of Companies in due course.

#### First time adoption of IFRS – transitional arrangements

In accordance with IFRS 1 'First-time adoption of International Financial Reporting Standards' the Group has taken advantage of the following exemptions:

##### Financial Instruments

Whitbread will apply IAS 32 and IAS 39 'Financial Instruments' prospectively, that is with effect from 4 March 2005. Under the transitional rules of IFRS 1, hedging designation and certain other requirements of IAS 32 and IAS 39 may not be applied in the comparative period and the remainder of those standards need not be applied to comparative balances. No adjustments for financial instruments will be required in the 2004/5 profit and loss account or the 2005 balance sheet, as these will continue to be accounted for under UK GAAP.

##### Business Combinations

The Group has taken advantage of the provisions within IFRS 1 and has elected not to apply IFRS 3 'Business Combinations' retrospectively to business combinations that took place before the transition to IFRS.

##### Property, Plant and Equipment

The Group has elected to use the UK GAAP revaluations of properties prior to the date of transition to IFRS as deemed cost, as allowed by IFRS 1.

##### Share based payments

In accordance with IFRS 1, the Group has applied IFRS 2 'Share Based Payments' to equity settled awards that were granted after 7 November 2002 but not vested at 1 January 2005.

##### Cumulative Translation Differences

IAS 21 'The Effects of Changes in Foreign Exchange Rates' requires companies to record and accumulate translation differences arising on the translation and consolidation of results of foreign operations and balance sheets denominated in foreign currencies. Cumulative translation differences are maintained as a separate element of equity. On disposal of a foreign operation, IAS 21 requires the transfer of the cumulative translation differences relating to the business disposed of to the income statement as part of the gain or loss on sale. Under the provisions of IFRS 1 the Group will apply IAS 21 prospectively from the date of transition to IFRS.

## 2. Independent Auditors' Report to Whitbread plc on the preliminary IFRS Financial Statements for the year ended 3 March 2005

We have audited the accompanying preliminary International Financial Reporting Standards ("IFRS") financial statements of the Company for the year ended 3 March 2005 which comprise the opening IFRS Balance Sheet as at 5 March 2004, the Profit and Loss Account for the year ended 3 March 2005 and the Balance Sheet as at 3 March 2005, together with the related accounting policies.

This report is made solely to the Company in accordance with our engagement letter dated 18 October 2004. Our audit work has been undertaken so that we might state to the Company those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility or liability to anyone other than the Company for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

These preliminary IFRS financial statements are the responsibility of the Company's directors and have been prepared as part of the Company's conversion to IFRS. They have been prepared in accordance with the basis set out in Notes 1 and 2, which describes how IFRS have been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 2 March 2006.

Our responsibility is to express an independent opinion on the preliminary IFRS financial statements based on our audit. We read the other information accompanying the preliminary IFRS financial statements and consider whether it is consistent with the preliminary IFRS financial statements. This other information comprises the description of significant changes in accounting policies. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the preliminary opening balance sheet. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the preliminary IFRS financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the preliminary IFRS financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the preliminary IFRS financial statements. We believe that our audit provides a reasonable basis for our opinion.

### Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that 'background' explains why there is a possibility that the preliminary IFRS financial statements may

require adjustment before constituting the final IFRS financial statements. Moreover, we draw attention to the fact that, under IFRSs only a complete set of financial statements with comparative financial information and explanatory notes can provide a fair presentation of the Company's financial position, results of operations and cash flows in accordance with IFRSs.

#### Opinion

In our opinion, the preliminary IFRS financial statements for the year ended 3 March 2005 have been prepared, in all material respects, in accordance with the basis set out in 'background', which describes how IFRS have been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 2 March 2006.

Ernst & Young LLP  
London  
26 May 2005

### 3. Restated IFRS consolidated financial statements

#### Consolidated Income Statement for the year ended 3 March 2005

	Continuing Operations £m	Discontinued Operations * £m	Total Operations £m
Revenue	1,524.3	388.6	1,912.9
Costs of sales	(315.5)	(166.7)	(482.2)
<b>Gross profit</b>	<u>1,208.8</u>	<u>221.9</u>	<u>1,430.7</u>
Distribution costs	(846.2)	(131.2)	(977.4)
Administrative expenses	(139.8)	(23.9)	(163.7)
Impairment of goodwill	-	(17.2)	(17.2)
Impairment of property, plant and equipment	(10.0)	(4.3)	(14.3)
Reorganisation costs	(6.5)	-	(6.5)
Profit/ (loss) on disposal of property, plant and equipment	(0.4)	23.2	22.8
<b>Profit from operating activities</b>	<u>205.9</u>	<u>68.5</u>	<u>274.4</u>
Share of profit from joint ventures	11.5	-	11.5
Share of profits from associates	10.4	0.6	11.0
<b>Profit before financing and tax</b>	<u>227.8</u>	<u>69.1</u>	<u>296.9</u>
Finance cost	(76.3)	-	(76.3)
Finance income	2.0	0.2	2.2
<b>Profit before tax</b>	<u>153.5</u>	<u>69.3</u>	<u>222.8</u>
Income tax expense	(44.9)	(9.7)	(54.6)
<b>Net profit from ordinary activities</b>	<u>108.6</u>	<u>59.6</u>	<u>168.2</u>
<b>Attributable to:</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Equity holders of the company	108.3	59.6	167.9
Non-equity holders	0.3	-	0.3
<b>Net profit from ordinary activities</b>	<u>108.6</u>	<u>59.6</u>	<u>168.2</u>

\* Discontinued operations relates to the sale of Marriott, which took place on 5 May 2005.

## Reconciliations of earnings from UK GAAP to IFRS

Reconciliation of earnings under UK GAAP to IFRS for the year ended 3 March 2005

	Turnover	Operating Profit	Interest	Income from Joint Ventures & Associates	Tax	Profit after Tax	Minority Interest	Equity Holders of the Parent
	£m	£m	£m	£m	£m	£m	£m	£m
<b>As reported under UK GAAP</b>	1,912.9	275.9	(64.3)	37.8	(72.5)	176.9	(0.3)	176.6
Depreciation adjustment of held for sale assets	-	1.0	-	-	-	1.0	-	1.0
Pension accounting adjustments	-	(6.5)	(11.0)	-	5.3	(12.2)	-	(12.2)
IFRS tax adjustments	-	-	-	-	(1.7)	(1.7)	-	(1.7)
Share-based payments adjustment	-	(3.3)	-	-	1.4	(1.9)	-	(1.9)
Restatement of joint ventures & associates	-	-	1.2	(15.3)	12.9	(1.2)	-	(1.2)
Cessation of goodwill	-	7.3	-	-	-	7.3	-	7.3
<b>Restated reporting under IFRS</b>	1,912.9	274.4	(74.1)	22.5	(54.6)	168.2	(0.3)	167.9

## Consolidated Balance Sheets

	3 March 2005	5 March 2004
	£m	£m
<b>ASSETS</b>		
Non-current assets		
Property, plant and equipment	2,604.0	2,988.6
Long-term deferred income	4.9	4.8
Intangible assets	193.3	147.6
Investments in joint ventures accounted for using the equity method	43.1	42.9
Investments in associates accounted for using the equity method	45.6	44.8
Available for sale investments	6.4	3.7
	<u>2,897.3</u>	<u>3,232.4</u>
Current assets		
Non-current assets classified as held for sale	992.3	0.2
Inventories	23.0	24.4
Trade and other receivables	107.3	75.8
Prepayments	40.6	29.4
Cash and cash equivalents	53.5	68.8
	<u>1,216.7</u>	<u>198.6</u>
<b>Total assets</b>	<u><u>4,114.0</u></u>	<u><u>3,431.0</u></u>
<b>EQUITY AND LIABILITIES</b>		
Equity attributable to equity holders of the parent		
Share capital	149.6	148.7
Share premium account	23.2	13.5
Other reserves	(1,759.8)	(1,761.0)
Retained earnings	3,405.0	3,286.6
	<u>1,818.0</u>	<u>1,687.8</u>
Minority interests	5.8	6.8
<b>Total equity</b>	<u><u>1,823.8</u></u>	<u><u>1,694.6</u></u>
Non-current liabilities		
Long term borrowings	1,219.0	807.5
Deferred tax	238.7	167.9
Long-term provisions	25.6	21.8
Pension liability	346.0	366.0
<b>Total non-current liabilities</b>	<u><u>1,829.3</u></u>	<u><u>1,363.2</u></u>
Current liabilities		
Trade and other payables	341.9	289.7
Short-term borrowings	21.1	48.1
Current portion of long term borrowings	77.1	5.8
Current tax payable	16.9	24.2
Short term provisions	3.9	5.4
<b>Total current liabilities</b>	<u><u>460.9</u></u>	<u><u>373.2</u></u>
<b>Total liabilities</b>	<u><u>2,290.2</u></u>	<u><u>1,736.4</u></u>
<b>Total equity and liabilities</b>	<u><u>4,114.0</u></u>	<u><u>3,431.0</u></u>

## Reconciliations of the balance sheet from UK GAAP to IFRS

### Reconciliation of UK GAAP balance sheet to IFRS as at 3 March 2005

	Non-Current Assets	Current Assets	Non-Current Liabilities	Current Liabilities	Net Assets	Equity
	£m	£m	£m	£m	£m	£m
As reported under UK GAAP at 3 March 2005	3,915.4	224.4	(1,413.9)	(517.5)	2,208.4	(2,208.4)
Reclassify assets held for sale	(992.2)	992.3	-	-	0.1	(0.1)
Pension accounting adjustments	(67.7)	-	(223.7)	5.1	(286.3)	286.3
Share-based payments adjustment	-	-	1.8	0.8	2.6	(2.6)
Deferred tax adjustments	60.0	-	(197.4)	-	(137.4)	137.4
Joint ventures and associates	(25.5)	-	-	-	(25.5)	25.5
Remove declared dividends	-	-	-	54.6	54.6	(54.6)
Cessation of goodwill	7.3	-	-	-	7.3	(7.3)
Reclassifications	-	-	3.9	(3.9)	-	-
Restated reporting under IFRS at 3 March 2005	2,897.3	1,216.7	(1,829.3)	(460.9)	1,823.8	(1,823.8)

### Reconciliation of UK GAAP balance sheet to IFRS as at 5 March 2004

	Non Current Assets	Current Assets	Non-Current Liabilities	Current Liabilities	Net Assets	Equity
	£m	£m	£m	£m	£m	£m
As reported under UK GAAP at 5 March 2004	3,307.5	198.4	(987.3)	(420.2)	2,098.4	(2,098.4)
Reclassify assets held for sale	(1.1)	0.2	-	-	(0.9)	0.9
Pension accounting adjustments	(51.7)	-	(246.6)	4.6	(293.7)	293.7
Share-based payments adjustment	-	-	0.4	-	0.4	(0.4)
Deferred tax adjustments	-	-	(135.1)	-	(135.1)	135.1
Joint ventures and associates	(22.3)	-	-	-	(22.3)	22.3
Remove declared dividends	-	-	-	47.8	47.8	(47.8)
Reclassifications	-	-	5.4	(5.4)	-	-
Restated reporting under IFRS at 5 March 2004	3,232.4	198.6	(1,363.2)	(373.2)	1,694.6	(1,694.6)

## Reconciliations of Reserves from UK GAAP to IFRS

Reconciliation of Reserves UK GAAP to IFRS as at 3 March 2005

	Other Reserves*	Merger Reserve	P&L Account	Share Scheme Reserve	JV's & Associates	Total
	£m	£m	£m	£m	£m	£m
As reported under UK GAAP at 3 March 2005	123.3	(1,855.0)	3,720.5	(11.6)	52.6	2,029.8
Reclassify assets held for sale			0.1			0.1
Pension accounting adjustments			(286.3)			(286.3)
Share-based payments adjustment			2.1	0.5		2.6
Deferred tax adjustments	(44.1)		(93.3)			(137.4)
Joint ventures and associates					(25.5)	(25.5)
Remove declared dividends			54.6			54.6
Cessation of goodwill			7.3			7.3
As reported under IFRS at 3 March 2005	79.2	(1,855.0)	3,405.0	(11.1)	27.1	1,645.2

Reconciliation of Reserves UK GAAP to IFRS as at 5 March 2004

	Other Reserves*	Merger Reserve	P&L Account	Share Scheme Reserve	JV's & Associates	Total
	£m	£m	£m	£m	£m	£m
As reported under UK GAAP at 5 March 2004	124.5	(1,855.0)	3,621.1	(9.6)	48.4	1,929.4
Reclassify assets held for sale			(0.9)			(0.9)
Pension accounting adjustments			(293.7)			(293.7)
Share-based payments adjustment			4.0	(3.6)		0.4
Deferred tax adjustments	(43.4)		(91.7)			(135.1)
Joint ventures and associates					(22.3)	(22.3)
Remove declared dividends			47.8			47.8
As reported under IFRS at 5 March 2004	81.1	(1,855.0)	3,286.6	(13.2)	26.1	1,525.6

\*Under UK GAAP this was previously reported within the revaluation reserve.

#### 4. Changes in accounting policy

The transition to IFRS resulted in the following significant changes in accounting policies:

##### a) IFRS 3 Business Combinations

Under UK GAAP the Group goodwill was amortised on a straight-line basis over its estimated useful life up to a maximum of 20 years. IFRS 3 prohibits the amortisation of goodwill, requiring goodwill to be measured at cost less impairment losses and tested for impairment annually.

Hence under IFRS the Group will carry goodwill on balance sheet subsequent to initial recognition at cost less any accumulated impairment losses. Goodwill will be tested for impairment annually, or more frequently if circumstances indicate that impairment may have occurred. In future any negative goodwill will be written off immediately to the income statement.

The effect of the change is an increase in equity and intangible assets at 3 March 2005 of £7.3m. The change does not affect equity at 5 March 2004. Profits before tax for the year ended 3 March 2005 are increased by £7.3m. There is no associated tax impact.

##### b) IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

IFRS 5 requires that where the value of an asset will be recovered through a sale transaction rather than continuing use that the assets are classified as held for sale. Assets held for sale are valued at the lower of book value and fair value less costs to sell and are no longer depreciated. Under UK GAAP there is no held for sale definition and no reclassification is required.

At 5 March 2004 a £0.9m provision was recorded, and charged to retained earnings, to adjust the carrying value of the assets down to their fair value less costs to sell.

Assets held for sale at 3 March 2005 have increased to £992.3m, which is mainly due to the inclusion of the carrying value of fixed assets disposed of on 5 May 2005 as part of the Marriott sale. At 5 March 2004 £0.2m was recognised as held for sale, which related to a small number of restaurant properties being sold.

##### c) IAS 19 Employee Benefits

Under UK GAAP (SSAP 24 'Accounting for Pension Costs') pension costs are charged to the profit and loss account over the average expected service life of current employees. Actuarial surpluses and deficits are amortised over the expected remaining service lives of current employees. Any differences between the amount charged to the profit and loss account and payments made to the schemes are treated as assets or liabilities in the balance sheet.

IAS 19 requires recognition of the operating and finance costs of defined benefit plans in the income statement, with the option to recognise actuarial gains and losses in a statement of changes in equity titled 'Statement of Recognised Income and Expense'. The Group accounting policies under IFRS adopt this approach.

At 5 March 2004 under UK GAAP there was a £51.7m pension scheme prepayment as calculated in accordance with SSAP 24. This balance is removed under IFRS and

replaced with the £366.0m scheme liability as determined in accordance with IAS 19. This change in policy also results in the derecognition of a £9.6m deferred tax liability as calculated under SSAP 24, and the recognition of a £109.8m deferred tax asset under IAS 19 which is netted off against other deferred tax liabilities on the balance sheet.

The effect on the balance sheet as at 3 March 2005 is to remove the £67.7m pension scheme prepayment asset as calculated in accordance with SSAP 24, and replace it with a scheme liability of £346.0m as determined in accordance with IAS 19. The SSAP 24 deferred tax liability of £18.5m is derecognised and replaced with a £103.8m deferred tax asset as calculated under IAS 19, which again is netted off against other deferred tax liabilities in the balance sheet.

The effect of adopting IAS 19 on the income statement is a decrease in profit before tax of £17.5m and a reduction to the tax charge of £5.3m for the financial year ended 3 March 2005.

#### d) IFRS 2 Share-based Payments

Under UK GAAP, the Group writes-off the intrinsic value at the date of the grant over the vesting period. The cost of shares acquired is taken directly to shareholders' funds.

The scope of IFRS 2 is wider than UK GAAP as it relates to all share-based payment transactions, not just those made to employees, and there is also no exemption for SAYE schemes.

IFRS 2 requires that for equity-settled transactions with employees, the fair value of the employee services received should be measured by reference to the fair value of the equity instrument at the grant date.

The charge is spread over the vesting period, this differs from UK GAAP where the charge is spread over the performance period where employees have to satisfy specific performance conditions.

The Group has taken advantage of the transitional provisions of IFRS 2 in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on or before 1 January 2005.

The effect on profit before tax is a net charge of £3.3m made up of an IFRS 2 charge of £4.1m and a UK GAAP reversal of £0.8m for the financial year ended 3 March 2005. There is an associated deferred tax credit of £1.4m bringing the overall impact on profit after tax to a charge of £1.9m.

#### e) IAS 10 Events After the Balance Sheet Date

Under UK GAAP, Group dividends declared after the balance sheet date have been recognised as a liability.

Under IFRS dividends declared after the balance sheet date but before the financial statements are authorised for issue are not recognised as a liability at the balance sheet date.

The effect of the change is an increase in equity of £47.8m at 5 March 2004 and £54.6m at 3 March 2005. The change does not affect profit or loss reported under IFRS for the financial year ended 3 March 2005. There is no associated tax impact.

f) IAS 31 Investment in Joint Ventures and IAS 28 Investments in Associates

The Group will account for joint ventures and associates in line with IAS 31 'Interests in Joint Ventures' and IAS 28 'Investments in Associates' respectively. The Group's share of investments in joint ventures and associates has been reduced by £1.8m and £20.5m respectively at 4 March 2004 and £2.3m and £23.2m respectively at 3 March 2005 to reflect the re-statement of joint venture and associate balance sheets at the date of transition to IFRS. The adjustments primarily relate to the recognition of pension scheme liabilities in accordance with IAS 19.

g) IAS 12 Income Taxes

The Group's IAS 12 amendments are netted off and affect those deferred tax assets or liabilities which taken together comprise the net deferred tax liability at the balance sheet date.

The impact implementing IFRS has on the deferred tax liability is an increase of £15.3m and £73.3m at 5 March 2004 and at 3 March 2005 respectively.

In addition to the adjustments above made to deferred tax, further adjustments that have been made as a result of implementing IAS 12 are outlined below:

- The standard requires a deferred tax provision for all capital gains that have been subject to rollover relief claims. Under UK GAAP, deferred tax was only provided on assets subject to such claims to the extent that the liability was expected to crystallise. This has resulted in the creation of a deferred tax liability of £95.1m and £97.1m as at 5 March 2004 and 3 March 2005 respectively.
- The creation of a deferred tax liability for revaluation gains was not permitted under UK GAAP, however, it is required under IAS 19. Although the Group has not revalued its properties since the 1999/2000 financial year, and does not intend to revalue properties going forward, the revalued carrying amounts at the date of transition to IFRS will form the deemed costs under IFRS. A transitional deferred tax liability is therefore required at 5 March 2004 amounting to £43.4m and £44.1m at 3 March 2005.
- Under IFRS 3 Business Combinations, the acquisition of Premier Travel Inn required fair valuing giving rise to a deferred tax liability of £60.0m and a goodwill adjustment for the same value as at 3 March 2005.
- A deferred tax asset of £3.4m has been recognised with respect of discounted provisions relating to below market rent adjustments in existence at the date of transition to IFRS. This has increased to £3.8m as at 3 March 2005.

The above changes increase the deferred tax liability as follows:	3 March 2005 £m	5 March 2004 £m
Recognised under UK GAAP	(165.4)	(152.6)
Derecognition of SSAP 24 pension scheme asset	18.5	9.6
Deferred tax provision for rolled over capital gains	(97.1)	(95.1)
Deferred tax provision for previously revalued properties	(44.1)	(43.4)
Deferred tax provision for Premier Travel Inn	(60.0)	-
Increase in deferred tax liability	<u>(182.7)</u>	<u>(128.9)</u>
Recognition of IAS 19 defined benefit pension scheme liability	103.8	109.8
Recognition of share-based payments	1.8	0.4
Recognition of deferred tax on discounted provisions	3.8	3.4
Recognition of deferred tax asset	<u>109.4</u>	<u>113.6</u>
Net deferred tax liability increase	<u>(73.3)</u>	<u>(15.3)</u>
Recognised under IFRS	<u>(238.7)</u>	<u>(167.9)</u>

## 5. Accounting policies under IFRS

### Basis of accounting

The consolidated financial statements of Whitbread PLC and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time.

The consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value. The carrying values of recognised assets and liabilities that are the subject of a fair value hedge are adjusted to record changes in the fair values attributable to the risks that are being hedged. The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest hundred thousand except when otherwise indicated. The principal accounting policies adopted are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the accounts of the company and all Group undertakings, together with the Group's share of the net assets and results of joint ventures and associates incorporated in these financial statements using the equity method of accounting. These are adjusted, where appropriate, to conform to Group accounting policies.

Apart from the acquisition of Whitbread Group PLC by Whitbread PLC in 2000/1, which was accounted for using merger accounting, acquisitions are accounted for

under the acquisition method and any goodwill arising is capitalised as an intangible fixed asset. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement up to the date that control passes respectively. All intra-group transactions, balances, income and expenses are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

## Intangible assets

### Goodwill

Goodwill arising on acquisition is capitalised and represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

It was the company's policy to eliminate goodwill arising on acquisitions directly against reserves up to the financial year 1996/7. In accordance with IFRS 3 Business Combinations, such goodwill will remain eliminated against reserves and is not included in determining any subsequent profit or loss on disposal.

### IT software

IT software is amortised, on a straight-line basis over five years. The carrying values are reviewed for impairment if events or changes in circumstances indicate that their carrying value may not be recoverable.

### Property, plant and equipment

Prior to the 1999/2000 financial year, properties were regularly revalued on a cyclical basis. Since this date the Group policy has been not to revalue its properties and, while previous valuations have been retained, they have not been updated. As permitted by IFRS 1, the Group has elected to use the UK GAAP revaluations before the date of transition to IFRS as deemed cost at the date of transition. Fixed assets are stated at cost or deemed cost at transition to IFRS less accumulated depreciation and any impairment in value. Gross interest costs incurred on the financing of major projects are capitalised until the time that they are available for use. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Freehold land is not depreciated.
- Freehold buildings are depreciated to their estimated residual values over periods up to 50 years.
- Properties held under finance leases are depreciated over the shorter of their estimated useful lives and the remaining lease period.
- Administration and logistics furniture, fixtures and equipment are depreciated over 3 to 30 years.

- Retail furniture, fixtures and equipment are depreciated over 4 to 25 years.
- Vehicles are depreciated over 4 to 10 years.

Payments made on entering into or acquiring leaseholds that are accounted for as operating leases represent prepaid lease payments. These are amortised on a straight-line basis over the lease term.

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that their carrying value may not be recoverable. Any impairment in the value of fixed assets is charged to the income statement.

Profits and losses on disposal of fixed assets reflect the difference between net selling price and the carrying amount at the date of disposal and is recognised in the income statement.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods includes appropriate overheads. Cost is calculated on the basis of first in, first out and net realisable value is the estimated selling price less any costs of disposal.

#### Provisions

Provisions for warranties, onerous contracts and restructuring costs are recognised when the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

#### Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange quoted at the balance sheet date. Trading results are translated into sterling at average rates of exchange for the year. Day to day transactions are recorded in sterling at the rates ruling on the date of those transactions. Currency gains and losses arising from the retranslation of the opening net assets of foreign operations, less those arising from related currency borrowings to the extent that they are matched, are recorded as a movement on reserves, net of tax. The differences that arise from translating the results of overseas businesses at average rates of exchange, and their assets and liabilities at closing rates, are also dealt with in reserves. All other currency gains and losses are dealt with in the profit and loss account.

#### Revenue recognition

Generally, revenue is the value of goods and services sold to third parties as part of the Group's trading activities, after deducting discounts and sales-based taxes. The following is a description of the composition of revenues of the Group.

Owned hotel revenue – including the rental of rooms and food and beverage sales from a network of hotels. Revenue is recognised when rooms are occupied and food and beverage is sold.

Franchise fees – received in connection with the franchise of the Group’s brand names. Revenue is recognised when earned.

Leisure club subscriptions – subscriptions are recognised over the period that membership relates.

Sale of food and beverages in operations – revenue is recognised when food and beverages are sold.

Interest income is recognised as the interest accrues using the effective interest method.

Dividend income is recognised when the shareholders’ right to receive the payment is established.

### Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental payments in respect of operating leases are charged against operating profit on a straight-line basis over the period of the lease. Lease incentives are recognised as a reduction of rental income over the lease term.

### Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

### Pensions and other post-employment benefits

In respect of defined benefit pension schemes, the obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for any unrecognised past service cost, reduced by the fair value of the scheme assets. The cost of providing benefits is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur in the statement of recognised income and expense.

Payments to defined contribution pension schemes are charged as an expense as they fall due.

### Share-based payment transactions

Certain employees and directors of the Group receive equity-settled remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares. The costs of equity-settled transactions with employees are measured by reference to the fair value, determined using a stochastic model, at the date at which they are granted. The cost of equity-settled transactions are recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the relevant vesting date. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired, and is adjusted to reflect the directors best available estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

The Group has taken advantage of the transitional provisions of IFRS 2 in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on or before 1 January 2005.

## Tax

The income tax charge represents both the income tax payable, based on profits for the year, and deferred income tax. Deferred income tax is recognised in full, using the liability method, in respect of temporary timing differences between the tax base of the Groups assets and liabilities, and their carrying amounts, that have originated but not been reversed by the balance sheet date. No deferred tax is recognised if the temporary timing difference arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Deferred income tax is recognised in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary timing differences, carry-forward of unused tax assets and unused tax losses can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

## Financial Instruments

### Investments

Interests in subsidiaries, associates and joint ventures are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as held for trading and available-for-sale and are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the investment is disposed of at which time the cumulative gain or loss previously reported in equity is included in the income statement for the period.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of

business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment. Interest income is recognised in profit or loss as the interest accrues using the effective interest method. Impairment losses and foreign exchange gains and losses are recognised in profit or loss.

Financial liabilities that are not part of a hedge relationship are recognised at amortised cost.

#### Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

#### Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

#### Borrowings

Borrowings are initially recognised at fair value of the consideration received net of any associated issue costs. Borrowings are subsequently recorded at amortised cost, with any difference between the amount initially recorded and the redemption value recognised in the income statement using the effective interest method.

#### Derivative financial instruments

The main financial risks faced by the Group relate to: the availability of funds to meet business needs; fluctuations in interest rates; and the risk of default by a counter party in a financial transaction. The treasury committee, which is chaired by the Finance Director, reviews and monitors the treasury function. The undertaking of financial transactions of a speculative nature is not permitted.

The Group finances its operations by a combination of internally generated cash flow, bank borrowings and long-term debt market issues. The Group seeks to achieve a spread in the maturity of its debts. Interest rate swaps and interest rate caps are used to achieve the desired mix of fixed and floating rate debt. The Group's policy is to fix or cap a proportion of projected net interest costs over the next five years. This policy reduces the Group's exposure to the consequences of interest rate fluctuations. The Group uses foreign currency borrowings to provide a partial hedge against overseas investments. Transaction exposures resulting from purchases in foreign currencies are usually hedged by forward foreign currency options.

Derivative financial instruments used by the Group are stated at fair value. For the purposes of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows

that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

Gains or losses from re-measuring fair value hedges, which meet the conditions for hedge accounting, are recorded in the income statement, together with the corresponding changes in the fair value of the hedged instruments attributable to the hedged risk. Where the adjustment is to the carrying amount of a hedged financial instrument, the adjustment is amortised to the net profit and loss such that it is fully amortised by maturity.

The portion of any gains or losses of cash flow hedges, which meet the conditions for hedge accounting and are determined to be effective hedges, are recognised directly in equity. The gains or losses relating to the ineffective portion are recognised immediately in the income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss. For cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are recognised immediately in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

### Segmental Reporting

The Group's primary reporting format is business segments and its secondary format is geographical segments. The Group has three main business segments that are further broken down by business units within each segment.

The three main segments are as follows:

- Hotels – comprises the activities of the Group's owned and managed hotels.
- Restaurants – comprising the activity of pub restaurants and high street restaurants.
- Sport, health and fitness – comprising the activity of David Lloyd Leisure.

The geographical split of the Group's activities comprises activities within the United Kingdom and those across the rest of the world.

-ENDS-