

Whitbread PLC
Moderator: Christopher Rogers
Wednesday, 3rd August 2005
10:30 BST

Operator: This is Premiere Global Services. Please stand by. We are about to begin. Good day, ladies and gentlemen and welcome to today's Whitbread IFRS conference call. For your information, today's conference is being recorded. At this time I would like to turn the call over to your host today, Mr Christopher Rogers, Finance Director. Please go ahead, sir.

Christopher Rogers: Thank you. Good morning, everybody. I am joined here by Lucy Johnson, our Group Accounting Manager, and Lucy Walker, our Group Accountant, and Dan Waugh, our Head of Investor Relations. What I hope is that you've all managed to pull off the release from the RNS system and also have got a copy of the presentation that was posted on our website. And my plan is to go through that presentation for the next few minutes, and then I'm very happy to take questions at the end.

Turning to the presentation and walking through the pages, and turning to the first page (slide 1), in common with what is required for this year, we will be reporting under IFRS for our interim results that will be published on 25th October 2005 and what we have done today is to release our 2004/5 numbers and 2003/4 numbers, using IFRS standards. And you will have seen those in the release that came out today.

Turning to the second page (slide 2), the headline impacts are pretty similar to what we published as part of our preliminary results at the end of April. There are one or two small rounding differences, but directionally they're the same. At the bottom line the net impact on the profit is just under £9 million negative, and the impact on the net assets just under £385 million (negative). As you can see, the biggest area of impact has been the adoption of IAS 19 which is pension accounting, which has impacted the profit and loss by just over £13 million and the net assets by just over £300 million.

I would point out that this chart of headline impact for share based payment and pension accounting is net of the associated tax impact and then the remaining tax impacts come through the income tax line. There is also a starred asterisk there, which shows that some of the changes are also impacted by joint ventures and associates, and we'll pick up on those as we go through.

Turning to the next page (slide 3), this page reconciles for you the UK GAAP numbers for PBIT, PBT, profit after tax, and earnings per share, and net assets to the IFRS numbers. So on the key lines you can see the major movements.

Turning to the next page (slide 4), the key features of IFRS for Whitbread are as follows – there is no impact on our cash flow or our ability to pay dividends. The key standards that impact us are IFRS 3, which deals with goodwill where we cease to amortise goodwill and do an annual impairment review; IFRS 5, which relates to assets held for sale which are no longer depreciated. This is quite an important point for us as we go through this year, and I'll touch on it when we come to look at it in detail as regards the Marriott assets.

The next one to impact on us is IAS 19 regarding pension fund costs and finance costs. And those, as I've already highlighted, are the ones that have the major impact on our numbers. We're also impacted by our IFRS 2, share based payments, as we extend the coverage of that standard to cover 'Save As You Earn' schemes. IAS 10 which requires that dividends are not recognised which are declared after the balance sheet date and not accrued for and therefore that adjustment is made. We are impacted by IAS 31 and IAS 28 in relation to joint ventures and associates, particularly as regards their pension scheme deficits, and we also get impacted by IAS 12 which relates to income taxes and in particular deferred tax.

Turning now to those in detail (slide 5), starting with IFRS 3: business combinations. The biggest impact here as I've already highlighted is that goodwill is no longer amortised but tested for impairment on an annual basis. We have had goodwill in our balance sheet to the tune of £160 million, and that is something that we will no longer be amortising but will review on an annual basis. And therefore there is an add-back to the P&L.

Moving now to IFRS 5 (slide 6), which relates to assets held for resale. We had a small impact in 2004/5 relating to the German restaurants which were being held for resale. There will be a bigger impact in 2005/6 relating to the Marriott assets. They did not impact 2004/5, as that deal took place very close to the year end and was completed after the year end. So you will see that for the year end purposes we reclassified those assets – £992 million of them – as assets held for resale, and that's where they sit in our balance sheet now, and will not be attracting depreciation as we go through this year. The blended depreciation rate on those assets is about 3%. So that will help you work out what the impact is on the profit and loss of putting those as assets held for resale.

Turning to IAS 19 (slide 7), employee benefits and pension accounting: in common with a lot of people, this has a major impact on our numbers. The profit and loss is impacted by £17.5 million before tax, and then there is a positive £5.3 million reduction in tax relating to that increased charge. Those are the numbers that relate to Whitbread. On top of that, we have the impact of the joint ventures and associates, and if you add the two together that's how you get to the numbers that are in the summary chart. In terms of the balance sheet we have two effects going on. The reversing out of the SSAP 24 numbers, and then putting in the impact of the IAS 19 numbers into our balance sheet, and that's how we get to our net £311 million reduction in net assets for the group.

Moving onto IFRS 2 (slide 8), share based payments: we have taken advantage of the [transition] provisions, and applied this only to equity awards after the 7th November 2002, and those that have not vested before January 2005. Basically, this standard is expanding in its scope, and it's picking up Save-As-You-Earn schemes, and that has a small impact on us as a business.

Moving now to IAS 10 (slide 9) – events after the balance sheet date, this is relevant for us in terms of dividends, and as I've already said, dividends declared after the balance sheet date are no longer recognised as a liability. So there is no impact on the profit and loss earned for shareholders, but there is a balance sheet impact which is pretty straightforward.

IAS 31 and IAS 28 (slide 10), relating to investment in joint ventures and investment in associates: this impacts on our business as regards the pension scheme deficits for those joint ventures and associates, and you can see laid out here how it impacts on us. And this ties in with our pension summary on the summary schedule at the beginning of the presentation. The (principal) joint venture clearly is Pizza Hut and the associate is Britvic.

IAS 12 (slide 11) relating to income taxes – this is the income tax effect over and above the tax effects of the standards that I've previously been through, and here the biggest impact is in terms of deferred tax, and we lay out here the various ins and outs of that impact on our business.

So that, in summary, is the major impact of the new international accounting standards on our business. In terms of the split between the first and the second half, of the £8.7 million in 2004/5, £4.7 million hit in the first half and £4 million hit in the second half, and we'd expect something pretty similar in the year ahead. And as I say, the major difference in 2005/6 compared to 2004/5, in terms of application of the new standards, will be the impact of IFRS 5 and the assets held for resale where we are holding the Marriott assets – £992 million of them – as assets held for resale and they therefore will not be depreciated.

So in summary, that's the impact of the new standards on us. There is an appendix here, which will tie in to the full RNS that was put out this morning, and I'd be now very happy to take any questions that anybody may have on this morning's publications.

Operator: We will take our first question from Tom Walsh with Merrill Lynch. Please go ahead.

Tom Walsh: Hi there. Good morning. Just a couple of questions. At interim, will you be reporting under GAAP and under IFRS, or are you only going to give your numbers under IFRS? And secondly, will the pensions and the share based payments costs be caught under your central costs, or will they be held in the divisions?

Christopher Rogers: Can I take the second one first? On the share based payments we will look to allocate those back to where the employees work, and therefore will be in the divisions. That's the piece of work that is currently underway, but the number as you see is not that huge. But certainly come September 1st (when) we are doing our pre-close (trading statement), if we feel we need to give further guidance on the divisional state we'll give it then.

As regards the first question, we will obviously be publishing under IFRS but if, to help ease people's understanding there needs to be some form of reconciliation, then we will provide that for part of the presentation.

Tom Walsh: Ok. Thank you.

Operator: There are no further questions

Christopher Rogers: Thank you, everybody, for joining us this morning. Do feel free to give us a call if there are any subsequent questions that you have. If you ring Dan Waugh, he can direct the question and get an answer for you. So thank you very much, and I look forward to speaking to you in September. Bye.