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City&Business

Pound heads for new low against euro

By **Peter Cunliffe**
Deputy City Editor

HOLIDAYMAKERS heading for Europe this summer could see their spending money cut as the pound sinks to new lows against the euro.

Sterling has fallen to record low levels against the European single currency over the past two weeks on speculation that the Bank of England will cut interest rates aggressively this spring.

On Friday the euro touched an all-time high of 73.82p to the pound before closing at 73.72p, up from 65p last January.

The euro launched at just over 70p in 1999 and bottomed at 57p in 2000. Its recovery since then is due to the euro increasingly being seen as a key international currency and a safe haven when the US dollar is under pressure.

Howard Archer, chief UK and European economist at Global Insight, predicted the Bank would be forced to cut UK rates from the current 5.5 per cent to 4.75 per cent in 2008, possibly as low as 4.5 per cent if the economy took a turn for the worse.

He said: "Sterling is forecast to fall back significantly to a succession of new record lows against the euro over the coming months, as interest rate differentials become less supportive for the pound.

"The European Central Bank seems set to keep its key interest rate unchanged at 4 per cent for several months to come."

Although the strong euro is bad news for tourists heading across the Channel, it will be welcomed by Britain's hard-pressed exporters.

The pound has also fallen sharply against the US dollar since reaching a 26-year high of close to $2.11 in November.

It has retreated below the $2 watershed, but was bubbling just under that level at $1.99 on Friday.

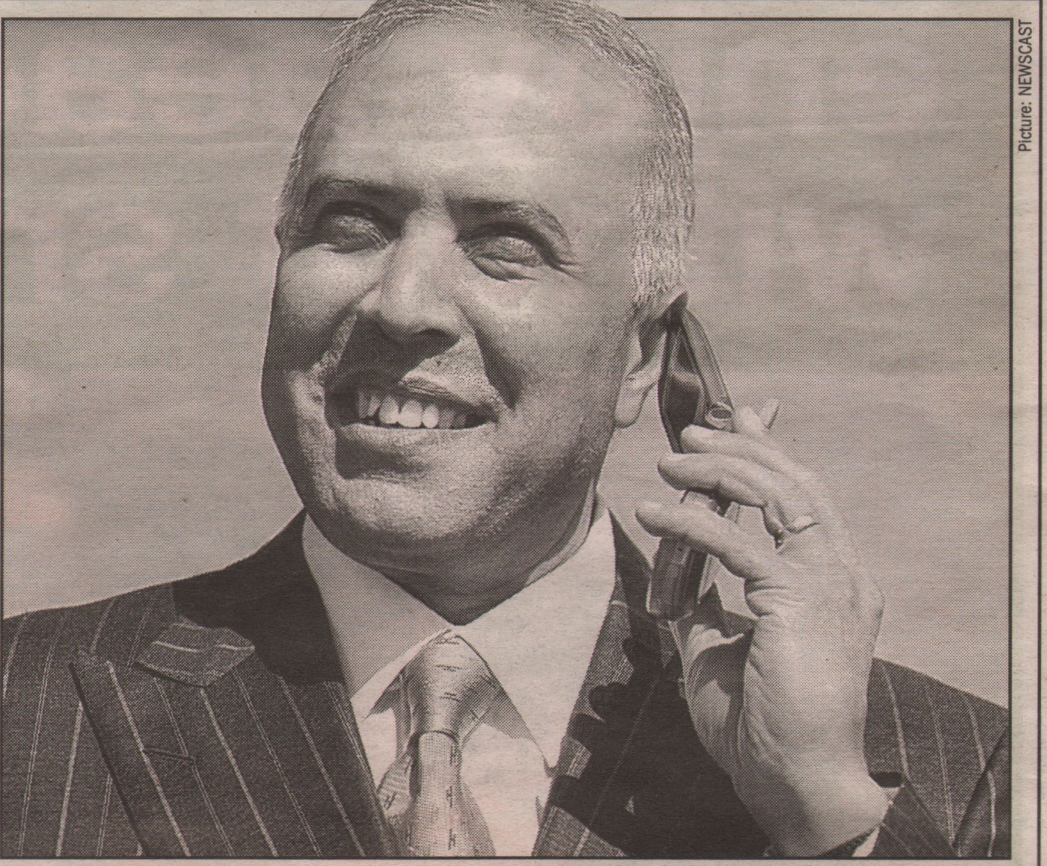
Archer predicted the pound would remain around or just above $2 in the first half of the year, but expected it to fall back towards $1.90 during the second half.

That would be bad news for holidaymakers heading to Florida and New York but is likely to be welcomed by exporters to the US.

A survey of analysts' 2008 forecasts by Legal & General puts the pound between 67p and 76p against the euro and at $1.83 to $2.12 against the dollar.

But Legal & General warned that higher energy and food prices would deter the Bank of England from cutting rates too far, and predicted they would fall no lower than 5 per cent.

On Friday the pound closed at an 18-month low against a basket of international currencies after its worst monthly performance for nearly four years.



Picture: NEWSCAST

RIGHT CALLS: Sarin has triumphed over shareholder discontent and boardroom unrest

Sarin dials up a bumper payout

VODAFONE'S chief executive Arun Sarin could be in line for a bumper £45million payout if the mobile phones giant continues its revival, it emerged yesterday.

That is the amount he could collect over the next two years, subject to reaching performance targets and the share price.

Sources stressed that the potential payout was subject to "a myriad of conditions", but investors are unlikely to complain too loudly provided the shares continue to climb.

The FTSE 100 stock has jumped by more than a third this year, from 134p in March to 188p on Friday, while the Footsie has risen just over 4 per cent.

Since being appointed four years ago, Sarin has overcome shareholder discontent and boardroom unrest. He has sold underperforming or unwanted businesses, slashed costs and targeted fast-growing markets such as India and Turkey. Half-year profits last month were ahead of City forecasts.

Sarin has cashable share options worth £10million and owns £11million of shares outright.

He has £3.6million in a deferred bonus scheme, two tranches of options worth up to £8.7million by 2009, depending on earnings per share, and £11.8million in a long-term incentive scheme.

Drugs giants in Iraq 'bribes' probe

DRUGS giants GlaxoSmithKline and AstraZeneca have been asked to hand over papers as part of a probe into bribes allegedly paid to Saddam Hussein's former Iraq regime.

The Serious Fraud Office is examining possible breaches of sanctions in place from 1996 to 2003. Both companies have denied wrongdoing and said they were co-operating fully with the inquiry.

An oil-for-food programme allowed Iraq to sell oil to buy humanitarian provisions but a UN-commissioned inquiry later found that as many as 2,200 companies in 66 countries may have breached the rules by bribing Iraqi officials. The SFO launched its investigation last February.

A spokesman for GlaxoSmithKline said: "GSK does not believe that its employees or its agents in Iraq knowingly engaged in wrongdoing regarding the oil-for-food programme.

"In fact GSK went to considerable lengths to co-operate with UK government authorities responsible for the UK administration of the programme and to impose anti-corruption measures when dealing with intermediaries in Iraq at a difficult time."

An AstraZeneca spokeswoman said the company had received a request from the Serious Fraud Office for documents as part of its review of the oil-for-food programme in Iraq, and would comply.

US-owned Eli Lilly last night said it had also been asked to hand over documents to the SFO.

Shell to cut thousands of IT jobs

OIL giant Royal Dutch Shell plans to shed thousands of jobs in the latest cost-cutting move by the industry.

It is in talks on an outsourcing deal that would transfer a large part of its information technology division to three separate companies.

The division has 3,600 staff, and it is thought Shell would keep 400 while the remaining 3,200 posts would be outsourced. Shell employs about 108,000 worldwide.

Consultations with affected workers are due to start early in the New Year, with the new arrangements due to begin on July 1.

Details of the plans were outlined in a leaked email from Shell's vice-president of IT infrastructure, Goh Swee-Chen.

Her message said the Anglo-Dutch giant had selected three companies, EDS, AT&T and T-Systems, to take part in the outsourcing programme.

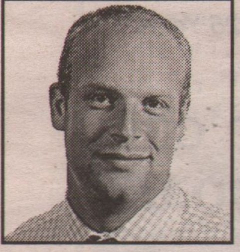
She told staff: "I acknowledge that there will still be uncertainty as we are working through the finalisation of contracts, open resourcing and transition preparations."

The message was passed to the campaigning website royaldutchshell.com, sometimes used by staff to air grievances.

A company spokeswoman refused to comment on the email but confirmed the outsourcing plans.

Shell's arch-rival BP last month announced plans to offload its US petrol stations, affecting 10,000 staff.

Compass Group has got the bit between its teeth



HENK POTTS, investment analyst at Barclays Wealth, shares his knowledge. For further information please see www.stockbrokers.barclays.co.uk

THE INVESTMENT ANALYST

IN THE wake of the Christmas period, food is unlikely to be at the forefront of investors' minds — at least not until the cold turkey and mince pies have been cleared away.

However, there is one company that looks attractive among the remnants of the Christmas leftovers.

Compass Group specialises in providing food to clients' premises which includes offices, factories, railway stations, airports, universities, schools and shopping centres using brands that it owns or franchises. Its brands include Caffe Ritazza, Upper Crust, Au Bon Pain, Harry Ramsden's, Burger King, Pizza Hut, Krispy Kreme and Sbarro.

Its recent results were above market expectations, with second-half trends on sales growth and margin improvement better than the first half's strong performance.

The US, Europe and rest-of-the-world divisions all improved margins, while the UK was only modestly negative. The company's strategy of improving pricing and cutting costs appears to be working. Perhaps more importantly, chief executive Richard Cousins is confident the group is moving into a period of creating sustainable value. The main issue concerns food price inflation, which Compass puts at 4-5 per cent but we believe the company should deliver further margin improvement in the current financial year.

Encouragingly, consensus forecasts were raised following the results. We have raised our earnings forecasts for the current year by 9 per cent, in line with the consensus.

In terms of its valuation, Compass ranks in the first quintile of our dividend discount model, both regionally and globally, making it one of the most attractive names in the FTSE travel and leisure sector. As for its dividend prospects, we are looking for growth of about 8 per cent a year during the next three years and it has the scope to enhance earnings further through share repurchases over the next few years. So, Compass could be one company that doesn't leave investors with a bloated feeling as we head into the new year.