



INTERCONTINENTAL®
HOTELS GROUP

ANNUAL REPORT AND
FINANCIAL STATEMENTS 2003



FINANCIAL HIGHLIGHTS

	Unaudited 12 months to 31 Dec 2003* £m	Unaudited 12 months to 31 Dec 2002* £m	Change %	15 months to 31 Dec 2003 £m	12 months to 30 Sept 2002 £m
HOTELS					
Turnover	1,487	1,538	-3.3	1,870	1,532
EBITDA	357	385	-7.3	446	405
Operating profit	200	239	-16.3	251	266
SOFT DRINKS					
Turnover	674	611	10.3	820	602
EBITDA	124	115	7.8	149	109
Operating profit	83	68	22.1	95	63
GROUP					
Turnover	2,161	2,149	0.6	3,483	3,615
EBITDA	481	500	-3.8	786	889
Operating profit	283	307	-7.8	483	618
Exceptional items					
Operating	-	-	-	(51)	(77)
Non-operating	-	-	-	(349)	53
Profit before tax	244	258	-5.4	36	534
Earnings per share					
Pro forma	20.8p	21.9p	-5.0	-	-
Basic	-	-	-	2.6p	62.5p
Adjusted	-	-	-	48.4p	51.4p

Operating profit in the above table is before exceptional items.

* The results for the 12 months are pro forma figures.

- Hotels pro forma operating profit for the 12 months to 31 December 2003 down 16% to £200m (down 11% at constant currency);
- Total Hotels pro forma operating profit improved in third and fourth quarters ended 31 December 2003 with fourth quarter up 11% to £49m;
- Continued excellent performance for Soft Drinks with pro forma operating profit up 22%, for the 12 months to 31 December 2003 against prior year, to £83m;
- Overhead cost reductions in 2003 of \$76m against 2003 budget; annualised savings of \$110m exceeding target of \$75m;
- Significant disposals made in 2003 at or above net book value with proceeds of £254m for the 12 months to 31 December 2003. Further disposals with proceeds of £20m already completed in 2004;
- Continued strong cash and capital control. Net debt reduced to £569m at 31 December 2003;
- £250m share repurchase programme announced;
- Disposal programme to involve further sale of assets with net book value of between £800m and £1 billion subject to no significant adverse changes in market conditions; and
- Soft Drinks exclusive bottling agreement with PepsiCo Inc. renewed. Opportunity for an initial public offering from 2005.

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OPERATING AND FINANCIAL REVIEW

On 15 April 2003, following shareholder and regulatory approval, Six Continents PLC separated into two new groups, InterContinental Hotels Group PLC ('IHG'), comprising the Hotels and Soft Drinks businesses, and Mitchells & Butlers plc ('MAB'), comprising the Retail and Standard Commercial Property Development businesses ('the Separation'). The Separation was accounted for under the principles of merger accounting which apply in the context of such group reconstructions. This Operating and Financial Review ('OFR') focuses on the performance of the continuing operations of the businesses following the Separation.

CHANGE IN ACCOUNTING REFERENCE DATE

In order to bring its reporting timetable in line with the majority of comparable European and US hotel companies, IHG has changed its financial year end from 30 September to 31 December. The statutory financial period covered by these financial statements is therefore the 15 months ended 31 December 2003. During this period, IHG made two interim results announcements as at 31 March 2003 and 30 September 2003. To assist shareholders, IHG is including in these financial statements an unaudited pro forma profit and loss account for the 12 months ended 31 December 2003 and unaudited pro forma comparatives for the 12 months ended 31 December 2002. This Operating and Financial Review principally comments on pro forma results for the 12 months ended 31 December 2003, as this will be the relevant period going forward.

OVERALL GROUP RESULTS FOR THE 15 MONTHS ENDED 31 DECEMBER 2003

Following the Separation, IHG embarked on a clear strategy to significantly improve its return on capital and free cash flow by focusing on revenue out performance, reducing overheads and lowering capital intensity. As part of this strategy IHG has undertaken a fundamental reorganisation of its Hotels business. Management in the regions now concentrate on the key revenue and profit drivers of the regional businesses, whilst key global functions have been centralised to maximise the benefits of our scale and drive process efficiencies. As a result of these changes, the historical segmental analysis in the OFR has been restated to reflect the new organisational structure. Group turnover for the 15 months ended 31 December 2003 was £3,483m (£3,615m for the 12 months ended 30 September 2002).

Profit on ordinary activities before interest and exceptional items for the 15 months ended 31 December 2003 was £483m (£618m for the 12 months ended 30 September 2002).

Exceptional items after tax totalled £336m and included an operating exceptional item of £51m and non-operating exceptional items totalling £213m. Details of the exceptional items are outlined in Exceptional Items below.

Group net cash flow for the 15 months ended 31 December 2003 was an outflow of £22m (outflow of £305m for the 12 months ended 30 September 2002). Cash flow from operations for the 15 months ended 31 December 2003 was £795m, up £75m (10.4%) from the 12 months ended 30 September 2002. Increased non-operating outflows during the 15 months included a £136m premium on the early settlement of debt and £66m of Separation costs. Offsetting these were a £173m reduction of investment in tangible fixed assets and a £131m increase in proceeds from the sale of tangible fixed assets.

Basic earnings per share for the 15 months ended 31 December 2003 was 2.6p (62.5p for the 12 months ended 30 September 2002). Adjusted earnings per share, after eliminating the distorting effect of exceptional items, was 48.4p for the 15 months ended 31 December 2003 (51.4p for the 12 months ended 30 September 2002). Dividends for the 15 months ended 31 December 2003 were 21.15p per share.

In conjunction with the Separation, the Group reorganised its debt financing. As a result, the majority of the Group's existing debt was repaid and new facilities put in place for IHG. Subsequently, IHG issued a €600m bond.

Subsequent to year end the Group has announced its intention to commence an on-market share repurchase programme. Details are outlined in Treasury Management below.

	Unaudited 12 months ended 31 Dec 2003* £m	Unaudited 12 months ended 31 Dec 2002* £m	Audited 15 months ended 31 Dec 2003 £m	Unaudited 3 months ended 31 Dec 2002 £m	Audited 12 months ended 30 Sept 2002 £m
GROUP RESULTS					
Turnover:					
Hotels	1,487	1,538	1,870	383	1,532
Soft Drinks	674	611	820	146	602
IHG	2,161	2,149	2,690	529	2,134
MAB	–	–	793	342	1,481
Group	2,161	2,149	3,483	871	3,615
Operating profit before non-operating exceptional items:					
Hotels	203	252	251	48	266
Pro forma adjustments	(3)	(13)	–	–	–
Soft Drinks	83	68	95	12	63
Exceptional items – Hotels	–	–	(51)	–	(77)
IHG	283	307	295	60	252
MAB	–	–	137	52	289
Group	283	307	432	112	541
EBITDA	481	500	786	186	889

* The results for the 12 months are pro forma figures.

HIGHLIGHTS FOR THE 12 MONTHS ENDED 31 DECEMBER 2003

IHG's businesses experienced varying trading conditions in the 12 months ended 31 December 2003. While the UK's exceptionally long summer saw the overall market for soft drinks rise 8%, continuing global insecurity, SARS, depressed economies and latterly exchange rate movements presented one of the hotel industry's most challenging years.

IHG turnover for the 12 months ended 31 December 2003 was £2,161m (12 months ended 31 December 2002 £2,149m). During the period, Soft Drinks turnover rose £63m (10.3%) to £674m, while Hotels turnover fell £51m (3.3%) to £1,487m.

Pro forma IHG operating profit before non-operating exceptional items for the 12 months ended 31 December 2003 was £283m (12 months ended 31 December 2002 £307m). Soft Drinks operating profit increased £15m (22.1%) to £83m while Hotels, net of pro forma adjustments, fell £39m (16.3%) to £200m.

Pro forma adjustments totalled £3m for the 12 months ended 31 December 2003 (£13m for the 12 months ended 31 December 2002). These adjustments relate principally to charges to MAB and pension credits.

HOTELS

STRATEGY

The overall strategy for Hotels is clear. The Group will use the strength of its brands, the breadth of its hotels distribution, the diversity of its business models and the benefits of its scale to drive growth and returns for shareholders. Key to the implementation of this strategy are the following priorities:

- the continued development of high quality, strongly differentiated and preferred brands;
- extending the network of hotels around the world that are attractive to international guests in the upscale and upper upscale brands, and in the domestic markets for the midscale brands;
- using our scale to drive revenues and operating margins;
- enhancing returns from the asset base by redeploying capital over time; and
- investing and training our staff to ensure that our brands and service levels are maintained and enhanced.

Action has already been taken in several areas to improve returns to shareholders. The organisation has been redesigned to align behind the strategic priorities and to facilitate decision making. Changes have been made to ensure the right people are in the right jobs to drive the strategy, and the cost base has been reduced by eliminating unnecessary work, and streamlining ongoing processes. In addition a thorough asset by asset review has been undertaken to determine the appropriate level of hotel ownership.

UNAUDITED PRO FORMA

	12 months to			3 months to				3 months to			
	31 Dec 2003 £m	31 Dec 2002 £m	Change %	31 March 2003 £m	30 June 2003 £m	30 Sept 2003 £m	31 Dec 2003 £m	31 March 2002 £m	30 June 2002 £m	30 Sept 2002 £m	31 Dec 2002 £m
HOTELS RESULTS											
Turnover:											
Americas	525	569	-8	127	139	133	126	135	156	142	136
EMEA	807	800	1	175	198	217	217	183	210	204	203
Asia Pacific	114	128	-11	29	19	28	38	34	32	28	34
Central	41	41	-	10	11	9	11	10	10	11	10
	1,487	1,538	-3	341	367	387	392	362	408	385	383
Operating profit before exceptional items:											
Americas	161	173	-7	32	50	47	32	38	54	47	34
EMEA	92	120	-23	13	19	36	24	21	35	42	22
Asia Pacific	12	26	-54	4	(3)	3	8	6	5	5	10
Central	(65)	(80)	-19	(20)	(20)	(10)	(15)	(17)	(19)	(22)	(22)
	200	239	-16	29	46	76	49	48	75	72	44

PERFORMANCE

Trading was depressed in the first and second quarters by the threat and then outbreak of the war in Iraq and the outbreak of SARS in Asia and Canada. In Europe, Middle East and Africa ('EMEA'), in the third and fourth quarters there were early signs of recovery in the UK, whilst trading in Continental Europe remained flat. In the Americas and Asia Pacific, improved local currency trading was impacted on conversion to sterling by the fall in the US dollar.

Hotels turnover decreased £51m (3.3%) from £1,538m for the 12 months ended 31 December 2002, to £1,487m for the 12 months ended 31 December 2003. While revenue rose £7m (0.9%) in EMEA, the Americas and Asia Pacific were negatively impacted by exchange rate movements. The decline of the US dollar against sterling by 9.7% from the first to fourth quarters resulted in sterling reported turnover in the Americas finishing the 12 months down 7.7% and Asia Pacific down 10.9%.

Hotels pro forma operating profit before exceptional items for the 12 months ended 31 December 2003 was £200m, down 16.3% (12 months ended 31 December 2002 £239m).

REORGANISATION

As part of the drive to deliver the key strategic priorities, IHG has undertaken a fundamental review of the organisation. The key objectives of the review were to:

- focus the organisation on the execution of its strategy;
- bring greater focus and establish clearer accountabilities;
- streamline decision making;
- reduce unnecessary work and inefficient processes; and
- provide greater teamwork and integration.

The redesign of the organisation was completed by the end of January 2003 and has now been substantially implemented. What remains to be done will be completed, as planned, by the end of 2004. Regional executive teams had been established, led by well respected hotel operators with at least 20 years of industry experience each. In addition, the key global functions have been centralised to allow maximum benefits of scale to be achieved and global process improvements to be progressed.

In March 2003, IHG announced that the reorganisation review would deliver annualised savings by December 2004 of \$100m, against the budgeted 2003 base. Of these, actual savings of \$40m would be delivered by 31 December 2003, with an annualised run rate of \$75m.

By 31 December 2003, IHG had achieved actual savings of \$76m, with an annualised run rate of \$110m. In view of progress to date, annualised savings of \$120m are now anticipated to be delivered by December 2004.

Overheads in IHG comprise central and regional overheads, as discussed separately in this OFR, together with regional costs that directly relate to regional income streams. In the year to 31 December 2003, these direct overheads totalled \$119m compared to \$141m for the year ended 31 December 2002; savings again being primarily driven from the reorganisation review.

ASSET REVIEW AND INVESTMENT

Following the Separation, IHG undertook a detailed review of its owned and leased portfolio to identify opportunities to lower capital intensity. Assets will only be owned if they have strategic value or generate superior returns. IHG have now developed plans for each owned asset taking into account a wide range of different criteria, including where relevant the state of the local market and readiness of the asset to be sold. It is currently estimated that the disposal programme will involve the further sale of assets with a net book value of between £800m and £1 billion. The scale and complexity of the programme means it will take some considerable time to complete and is subject to no significant adverse changes in market conditions.

In the 12 months to 31 December 2003 IHG completed sales of fixed assets with proceeds of £254m with an overall gain on sale of £4m. IHG is in active negotiations on further sales and has a pipeline of disposals.

In July 2003, IHG completed the sale of a 16 property Staybridge Suites portfolio to Hospitality Properties Trust ('HPT'), one of the largest hotel real estate investment trusts, for \$185m. Investment had been made into the Staybridge Suites portfolio by IHG to enable rapid entry to the important US extended stay market. The disposal to HPT achieved a reduction in capital employed within the business while retaining management and branding of the hotels.

IHG's strategic relationship with HPT expanded further with the conversion in September 2003 of 14 further HPT owned hotels to the Staybridge Suites brand.

The sale of the InterContinental London May Fair for £115m was completed in September 2003. With an alternative in London, and with this property in need of refurbishment, the opportunity was taken to reduce capital intensity in the business at a favourable price in excess of £400,000 per room.

In October 2003, IHG announced the acquisition of the Candlewood Suites brand in the US for \$15m from Candlewood Hotel Corporation. This brand's positioning in the midscale extended stay segment will complement Staybridge's upscale positioning. Candlewood Suites is an established brand of purpose built hotels with 109 properties on average less than five years old. The major owner of Candlewood Suites properties is HPT, which owned 64 at the time of announcement and which, in a related transaction, purchased an additional 12 properties. IHG will manage all 76 of HPT's properties under 20-year agreements, with options to extend. The transaction concluded on 31 December 2003.

RESERVATION SYSTEMS AND PRIORITY CLUB REWARDS

The newly formed Global Brand Services continued to strengthen brand loyalty, to make it as easy as possible to book

through IHG's websites, call centres and travel agent relationships, and to provide supporting technology to deliver this.

Delivery through IHG's reservations channels showed impressive growth during the year, across all IHG's brands and regions. The percentage of total room nights booked through IHG's reservation channels rose 2.6 percentage points, while net revenue booked rose 16.0%, in the 12 months ended 31 December 2003.

IHG's global e-commerce team continued to pursue an aggressive strategy. In the last 12 months, IHG launched sites for the French, German, Spanish, New Zealand, Australian and Chinese markets and additional sites are planned.

The Priority Club Rewards programme continues to grow in importance to IHG, with membership increasing by 3.6 million to over 19 million members by December 2003.

SCALE

There was a net increase in system size during the year of 187 hotels, comprising 21,445 rooms, with over 60% of these being new build properties. Included in this were the 109 hotels and 12,569 rooms of the Candlewood Suites brand, purchased on 31 December 2003. Key growth areas have been the continued expansion of Express in the limited service sector, which looks set to exceed 1,500 hotels in 2004, and Staybridge Suites, which finished the year with 71 hotels operating and more than 40 in the pipeline.

IHG's pipeline of hotels signed and waiting to enter the system grew to 544 hotels and 71,226 rooms by 31 December 2003, up from 490 hotels and 65,975 rooms as at 31 December 2002.

FIGURE 1

TOTAL SYSTEM SIZE AT 31 DECEMBER 2003	Hotels		Rooms	
	2003	Change over 2002	2003	Change over 2002
Analysed by brand:				
InterContinental	135	-	45,046	833
Crowne Plaza	202	8	58,482	1,627
Holiday Inn	1,529	-26	287,769	-3,746
Holiday Inn Express*	1,455	85	120,298	9,129
Staybridge Suites	71	21	8,221	2,619
Candlewood Suites	109	109	12,569	12,569
Other brands	19	-10	3,933	-1,586
Total	3,520	187	536,318	21,445
Analysed by ownership type:				
Owned and leased	171	-18	39,459	-2,126
Managed	423	113	103,440	17,090
Franchised	2,926	92	393,419	6,481
Total	3,520	187	536,318	21,445

* Operates as Express by Holiday Inn in EMEA and Asia Pacific regions.

AMERICAS

Revenue per available room ('RevPAR') performance in the franchised estate finished the 12 months ended 31 December 2003 0.3% down from the prior year at \$46.61. The war in Iraq in the first half of the year caused franchised RevPAR to fall 2.6%. In the third and fourth quarters, the franchised estate recorded 1.5% and 2.7% RevPAR growth respectively. All brands recorded a stronger second half to the year, with InterContinental, Express and Staybridge Suite franchises all recording over 3.5% year-on-year growth for the second six months.

RevPAR growth in the owned and managed estates followed a similar trend with the second half of the year significantly up on the first. The InterContinental owned estate, with its major gateway city exposure, grew year-on-year in each quarter as stability returned to the travel market. The InterContinental hotels in Chicago, New York, San Francisco and Miami all recorded strong growth in the second half of 2003.

Managed results include the full profit and loss account for certain properties where IHG is responsible for the underlying operations. Pro forma operating profit before exceptional items in the managed estate fell due to RevPAR declines in the managed InterContinental and Crowne Plaza estates in North and Latin America and the agreed payments made to HPT under our management contract.

In July 2003, IHG sold 16 Staybridge Suites to HPT for \$185m, retaining management and branding. Subsequently, HPT has converted 14 other suite hotels to IHG's Staybridge Suite brand and management.

Total Americas overheads including direct costs, were down 10%, with the separately disclosed regional overheads down 3%. The region finished with pro forma operating profit before exceptional items for the 12 months ended 31 December 2003 of \$262m, marginally ahead of 2002 (\$260m for the 12 months ended 31 December 2002).

The weakening of the US dollar against sterling had a negative impact in the second half of the year and the Americas finished the 12 months ended 31 December 2003 with pro forma operating profit before exceptional items in sterling of £161m, down 7% from the 12 months ended 31 December 2002.

EMEA

Turnover in EMEA totalled £807m for the 12 months ended 31 December 2003, an increase of £7m on 2002. Owned and leased turnover grew by £7m with the reopening during the year of the refurbished InterContinental Le Grand Paris and the opening of the newly built Crowne Plaza Brussels Airport, Holiday Inn Paris Disney and three Express hotels in Germany.

RevPAR in the region finished the 12 months ended 31 December 2003 down 0.7% on the prior 12 months at \$56.36. The trend in the first half of the year was similar

AMERICAS RESULTS	12 months to		Change %
	31 Dec 2003	31 Dec 2002	
	\$m	\$m	
Turnover:			
Owned and leased	481	481	-
Managed	46	51	-10
Franchised	327	325	1
	854	857	-
Operating profit before exceptional items:			
Owned and leased	32	38	-16
Managed	7	11	-36
Franchised	279	269	4
	318	318	-
Regional overheads	(56)	(58)	-3
Total	\$m 262	260	1
Sterling equivalent	£m 161	173	-7

FIGURE 2

AMERICAS SYSTEM SIZE AT 31 DECEMBER 2003	Hotels		Rooms	
	2003	Change over 2002	2003	Change over 2002
Analysed by brand:				
InterContinental	46	2	15,074	866
Crowne Plaza	106	-	31,235	-336
Holiday Inn	1,109	-32	213,389	-6,094
Holiday Inn Express	1,321	65	106,796	6,635
Staybridge Suites	71	21	8,221	2,619
Candlewood Suites	109	109	12,569	12,569
Other brands	6	-6	1,221	-1,074
Total	2,768	159	388,505	15,185
Analysed by ownership type:				
Owned and leased	28	-16	9,870	-1,956
Managed	222	101	47,711	12,218
Franchised	2,518	74	330,924	4,923
Total	2,768	159	388,505	15,185
Analysed by geography:				
United States	2,530	151	345,968	14,324
Rest of Americas	238	8	42,537	861
Total	2,768	159	388,505	15,185

EMEA RESULTS	12 months to		Change %
	31 Dec 2003 £m	31 Dec 2002 £m	
Turnover:			
Owned and leased	746	739	1
Managed	38	37	3
Franchised	23	24	-4
	807	800	1
Operating profit before exceptional items:			
Owned and leased	77	115	-33
Managed	19	21	-10
Franchised	18	14	29
	114	150	-24
Regional overheads	(22)	(30)	-27
Total	£m 92	120	-23
Dollar equivalent	\$m 149	180	-17

FIGURE 3

EMEA SYSTEM SIZE AT 31 DECEMBER 2003	Hotels		Rooms	
	2003	Change over over 2002	2003	Change over over 2002
Analysed by brand:				
InterContinental	63	-6	20,842	-82
Crowne Plaza	62	5	15,689	1,306
Holiday Inn	340	6	54,997	1,190
Holiday Inn Express	132	21	13,270	2,546
Other brands	3	-1	1,010	-80
Total	600	25	105,808	4,880
Analysed by ownership type:				
Owned and leased	129	-	26,318	148
Managed	101	2	25,483	1,707
Franchised	370	23	54,007	3,025
Total	600	25	105,808	4,880
Analysed by geography:				
United Kingdom	204	12	29,053	1,276
Rest of Europe	280	18	48,795	3,852
Middle East and Africa	116	-5	27,960	-248
Total	600	25	105,808	4,880

to that experienced in the Americas, with trading depressed by the threat and then outbreak of the war in Iraq. In the second half of the year, the UK market showed signs of recovery, although the picture was less clear in Europe, with both the German and French markets experiencing mixed trading conditions.

The Holiday Inn UK estate recorded five consecutive months of RevPAR growth to finish the year up 2.3%. The UK regions, with their domestic focus, recovered earlier than London and recorded seven consecutive months of growth. In London, December 2003 trading was particularly strong with the majority of the owned estate recording double digit RevPAR growth to end the month up 12.3%.

Across EMEA the InterContinental estate finished the year with an overall RevPAR decline of 5.7%. While the owned InterContinental estate finished down 8.0% due to its exposure to the main European gateways, the managed Middle East estate traded more positively with the comparable Middle East estate recording RevPAR growth of 2.7%.

Crowne Plaza finished the 12 months with RevPAR growth of 3.3% due to growth in the managed and franchised estates of 11.1% and 3.2% respectively. This performance was helped by the Middle East estate which finished the 12 months ended 31 December 2003 up 29.5%.

Franchise turnover fell due to a fall in RevPAR and exchange rate movements, offset by growth in system size. Franchise profits grew primarily due to savings in franchise overhead realised as part of the reorganisation review.

EMEA pro forma operating profit before exceptional items totalled £92m for the 12 months ended 31 December 2003.

The conversion of revenue to operating profit was depressed by the owned and leased estate, where the combined effects of pre-opening costs, hotels opening towards the end of the period, and increased depreciation charges associated with prior year refurbishment, all negatively impacted costs.

Regional overheads fell £8m to £22m for the 12 months ended 31 December 2003 (£30m for the 12 months ended 31 December 2002) as a result of the reorganisation initiatives.

During the year the InterContinental Le Grand Paris reopened after a full refurbishment to widespread acclaim, firmly positioning the property at the top of the Paris market. The Holiday Inn Paris Disney opened giving representation at one of Europe's leading family leisure destinations and the Crowne Plaza Brussels Airport opened at the end of the year, giving the brand another defining asset at a major European airport.

The managed and franchised estate in EMEA opened 40 hotels with over 6,500 rooms. Of these hotels, 78% were new build. As at 31 December 2003, there were a further 96 hotels with over 18,000 rooms signed and under development.

ASIA PACIFIC

Turnover in Asia Pacific for the 12 months ended 31 December 2003 was \$185m, down \$7m (4%) from the 12 months ended 31 December 2002.

In addition to the impact of the war in Iraq, trading in Asia Pacific was depressed by the Bali bombing and the SARS outbreak in Greater China.

Trading at the InterContinental Hong Kong fell sharply in March 2003, but recovery commenced in the third and fourth quarters. The opening of the award-winning Spoon restaurant in the InterContinental Hong Kong in October lifted non-rooms revenue. In Australia, the Rugby World Cup gave trading a boost in the second half of the year.

Initiatives to increase revenue within the region included the roll-out of local websites for China, Australia and New Zealand, and the opening of a Central Reservations Office based in Guangzhou, The People's Republic Of China, supporting calls in Cantonese and Mandarin. The addition during the year of Air China as a Priority Club Rewards partner further strengthened our travel alliances in the region.

System growth continued in the region with a net increase of over 3,000 rooms operated under management agreements. Highlights of the new openings were five InterContinental hotels in Thailand, Australia and India, and four Holiday Inns in Greater China. The new Holiday Inns in China brought the system size to 44 hotels, which together with the 18 management agreements signed, but under development, extended IHG's leadership in the key Greater China market.

The region continues to explore innovative deal structures, and was awarded the 'Deal of the Year' award at the 2003 Asia Pacific Hotel Investment conference for securing the management of the new InterContinental Bangkok and a neighbouring hotel, to open as a Holiday Inn in 2005.

CENTRAL

Central overheads principally comprise the costs of global functions that were centralised following the reorganisation review, reduced by holiday fee income. The reduction in gross central costs from £121m for the year ended 31 December 2002, to £106m for 2003, primarily reflects savings driven from the reorganisation review.

ASIA PACIFIC RESULTS	12 months to		Change %
	31 Dec 2003	31 Dec 2002	
	\$m	\$m	
Turnover:			
Owned and leased	154	156	-1
Managed	26	30	-13
Franchised	5	6	-17
	185	192	-4
Operating profit before exceptional items:			
Owned and leased	18	27	-33
Managed	15	24	-38
Franchised	4	5	-20
	37	56	-34
Regional overheads	(18)	(17)	6
Total	\$m 19	39	-51
Sterling equivalent	£m 12	26	-54

FIGURE 4

ASIA PACIFIC SYSTEM SIZE AT 31 DECEMBER 2003	Hotels		Rooms	
	2003	Change over 2002	2003	Change over 2002
Analysed by brand:				
InterContinental	26	4	9,130	49
Crowne Plaza	34	3	11,558	657
Holiday Inn	80	-	19,383	1,158
Holiday Inn Express	2	-1	232	-52
Other brands	10	-3	1,702	-432
Total	152	3	42,005	1,380
Analysed by ownership type:				
Owned and leased	14	-2	3,271	-318
Managed	100	10	30,246	3,165
Franchised	38	-5	8,488	-1,467
Total	152	3	42,005	1,380
Analysed by geography:				
Australia, New Zealand, South Pacific	49	2	10,296	978
Greater China	44	4	16,263	1,646
Rest of Asia Pacific	59	-3	15,446	-1,244
Total	152	3	42,005	1,380

CENTRAL	12 months to		Change %
	31 Dec 2003	31 Dec 2002	
	£m	£m	
Turnover	41	41	-
Gross central costs	(106)	(121)	-12
Net central costs	£m (65)	(80)	-19
Dollar equivalent	\$m (105)	(121)	-13

SOFT DRINKS

SOFT DRINKS RESULTS	12 months to		Change %
	31 Dec 2003 £m	31 Dec 2002 £m	
Turnover	674	611	10
Operating profit before exceptional items	83	68	22

STRATEGY

Soft Drinks continues to grow its market share in a number of key segments in which it operates. In addition to a strong investment programme in its key brands, Soft Drinks is also committed to an active new product development programme, which has recently brought outstanding success to the business through its J₂O and Fruit Shoot brands. Whilst this investment is driving top line revenue growth, Soft Drinks is also highly focused on effective cost and asset management to deliver an even higher level of earnings and Return on Capital Employed growth.

Subsequent to year end Soft Drinks has secured a new long-term Exclusive Bottling Agreement ('EBA') with PepsiCo Inc. The new EBA is on broadly similar terms to those in the current agreement. The term of the new agreement is 15 years and will be automatically extended by a further five years on an initial public offering. As part of the new EBA the shareholding of Britannia Soft Drinks Limited ('BSD') has been restructured, with IHG's shareholding in BSD reduced to 47.5%. IHG will continue to control and consolidate BSD. BSD's shareholders have also agreed subject, inter alia, to market conditions, to consider an initial public offering of BSD, between 1 January 2005 and 31 December 2008.

PERFORMANCE

As a result of favourable summer trading conditions the overall UK soft drinks market grew 8%. Soft Drinks turnover of £674m for the 12 months ended 31 December 2003 was up 10% on the previous year. In 2003, Soft Drinks grew its share of the carbonates market with Tango having an outstanding year, with volumes up 14%. Both Pepsi and 7UP also performed well with volumes up 3% and 6% respectively. Following good performance in 2002, Robinsons continued to grow with sales excluding Fruit Shoot up a further 4% in 2003. Investment was made in further capacity to support the success of Fruit Shoot and J₂O, with both brands leading their respective market segments with volume growth in 2003 of 54% and 95% respectively.

The business continued its focus on effective cost control, which contributed to an overall pro forma operating profit before exceptional items increase of 22% to £83m for the 12 months ended 31 December 2003.

CASH FLOW AND INVESTMENT

Operating cash flow for the 12 months ended 31 December 2003 was £71m. Capital expenditure of £55m for the 12 months ended 31 December 2003 was driven by expansionary investment in additional Fruit Shoot and J₂O production capacity, together with significant investment in a business transformation programme. This, in addition to implementing new IT infrastructure, will significantly enhance operating efficiency.

UNAUDITED GROUP RESULTS THREE MONTHS TO 31 DECEMBER 2002

Group turnover for the three months ended 31 December 2002 was £871m.

Group operating profit before non-operating exceptional items for the three months ended 31 December 2002 was £112m.

Group EBITDA for the three months ended 31 December 2002 was £186m.

MITCHELLS & BUTLERS

Included within the audited Group results for the 15 months ended 31 December 2003 are the 28 weeks from 1 October 2002 until the Separation on 15 April 2003 of MAB operations. For the 12 months ended 30 September 2002 MAB results are for the full fiscal year.

For the 28 weeks until Separation, turnover from MAB operations was £793m, up 0.9% from the comparable period in the prior year (£786m in the 28 weeks ended 13 April 2002). Underlying the 0.9% rise in turnover was a 1.0% fall in drink sales and a 2.7% rise in food sales. These comparisons were adversely affected by the timing of the important Easter trading period, which fell after the 2003 trading period but in the 2002 trading period. MAB turnover for the 12 months ended 30 September 2002 was £1,481m.

MAB operating profit before exceptional items for the 28 weeks prior to the Separation was £137m (£146m in the 28 weeks ended 13 April 2002). Gross operating margins were maintained and EBITDA was down only 0.5% despite the shift in Easter, higher employment and property costs arising from regulatory changes and an increase in the pension charge. The reduction in operating profit was largely due to higher depreciation costs. MAB operating profit for the 12 months 30 September 2002 was £289m.

Operating cash flow generated by MAB was £152m for the 28 weeks prior to the Separation (£72m in the 28 weeks ended 13 April 2002). The improvement over the 28 weeks ended 13 April 2002 was attributable to a £64m reduction in net capital expenditure and a favourable movement in working

capital of £17m. MAB operating cash flow for the 12 months ended 30 September 2002 was £145m.

EXCEPTIONAL ITEMS

Following a review of the hotel estate, tangible fixed assets have been written down by £73m. £51m has been charged as an operating exceptional item and £22m reverses previous revaluation gains.

Provisions against fixed asset investments primarily comprises a charge for diminution in the value of the Group's interest in FelCor Lodging Trust Inc, a US hotel real estate investment trust. This charge reflects the directors' view that the value of the investment is equivalent to market value at 31 December 2003.

A charge of £67m was incurred, related to the delivery of the fundamental reorganisation in Hotels.

The Group incurred £228m of non-operating exceptional costs before tax associated with the Separation. The total cost of the Separation was £124m. Of this figure, £4m was charged in 2002 and £28m related to bank facility fees that will be amortised to profit over the period of the facility. IHG's share of the non-facility fee element of costs is £51m, and of the facility fees is approximately £13m. A premium of £136m was paid on the repayment of the Group's EMTN loans and £250m 10% per cent debenture in January and February 2003, respectively.

These operating and non-operating exceptional items, together with their related tax credits, have been excluded in the calculation of adjusted earnings per share.

INTEREST

During the 15 months ended 31 December 2003, the majority of the Group's debt funding was refinanced. This involved the repayment of most of the existing debt, establishment of new debt facilities and a euro bond issue.

The net interest charge for the 15 months to 31 December 2003 was £47m compared to £60m for the 12 months to 30 September 2002. The reduction in the interest charge was principally due to a weaker US dollar, lower average interest rates and lower average debt levels.

The pro forma interest charge for the 12 months to 31 December 2003 was £39m.

TAXATION

Excluding the impact of exceptional items, the Group's tax charge for the 15 months to 31 December 2003 represents an effective rate of 10.8%, compared with 28.1% for the

12 months to 30 September 2002. The equivalent effective rate excluding MAB was 3.3% for the 15 months to 31 December 2003 compared with 24.6% for the 12 months to 30 September 2002. The rates have been substantially reduced in 2003 due to the impact of provision releases relating to tax matters which have been settled during the year or in respect of which the relevant statutory limitation period has expired.

Excluding the effect of exceptional items and prior year items, the Group's tax rate for the 15 months to 31 December 2003 was 35.9% (35.8% for the 12 months ended 30 September 2002). The equivalent rate excluding MAB was 36.5% for the 15 months to 31 December 2003 and for the 12 months to 30 September 2002 38.4%. The difference from the UK statutory rate of 30.0% arose primarily due to overseas profits being taxed at rates higher than the UK statutory rate.

CAPITAL EXPENDITURE AND CASH FLOW

The Group's operating cash flow for the 15 months ended 31 December 2003 increased by £340m to £547m (£207m for the 12 months ended 30 September 2002). Group net capital expenditure was down £265m to £248m; including £265m of proceeds from the sale of tangible fixed assets for the 15 months ended 31 December 2003 (£134m for the 12 months ended 30 September 2002).

Net interest paid fell £32m to £30m for the 15 months ended 31 December 2003, down from £62m for the 12 months ended 30 September 2002.

The reduction in tax paid of £127m reflects, principally, tax repayments received during the year and the impact of exceptional costs.

EARNINGS AND DIVIDEND

Earnings per share has been restated using the aggregate of the weighted average number of shares of InterContinental Hotels Group PLC and Six Continents PLC adjusted to equivalent shares of InterContinental Hotels Group PLC. The comparatives have been restated accordingly. For the 15 months ended 31 December 2003, earnings available for shareholders totalled £19m, compared with £457m for the 12 months ended 30 September 2002. The equivalent earnings per share were 2.6p and 62.5p respectively.

Earnings per share for the 15 months ended 31 December 2003 and the 12 months ended 30 September 2002 have been adjusted to eliminate the distorting effect of exceptional items, with the result that adjusted earnings per share were 48.4p and 51.4p respectively. The 2002 number has been restated to exclude all exceptional items.

FIGURE 5

	31 Dec 2003	30 Sept 2002
INTEREST RISK PROFILE OF GROSS DEBT		
	%	%
At fixed rates	56	34
At variable rates	44	66

FIGURE 6

	31 Dec 2003	30 Sept 2002
NET DEBT	£m	£m
Borrowings:		
Sterling	24	532
US dollar	952	1,953
Euro	772	811
Australian dollar	77	104
Hong Kong dollar	84	215
Other	26	17
Cash and current asset investments	(1,366)	(2,455)
Total	569	1,177

Note: all shown after the effect of currency swaps.

FIGURE 7

	31 Dec 2003	30 Sept 2002
FACILITIES	£m	£m
Committed	962	1,628
Uncommitted	80	155
Total	1,042	1,783

The Board has proposed a final dividend of 9.45p per share, bringing the total dividend since Separation to 13.5p per share in line with the amount detailed in the Listing Particulars February 2003.

TREASURY MANAGEMENT

Treasury policy is to manage financial risks that arise in relation to underlying business needs. The activities of the treasury function are carried out in accordance with Board approved policies and are subject to regular internal audit. Following the Separation, a thorough review of treasury policy was conducted. The review concluded that, in general, the existing treasury policies were appropriate to manage the financial risks faced by the Group and that only relatively minor policy changes were required. Revised treasury policies were approved by the Board in November 2003.

The treasury function does not operate as a profit centre. Treasury activities include the use of spot and forward foreign exchange instruments, currency options, currency swaps, interest rate swaps and options, and forward rate agreements.

One of the primary objectives of the Group's treasury risk management policy is to protect the financial covenant ratios in its loan documentation against the adverse impact of movements in interest rates and foreign exchange rates.

Movements in foreign exchange rates, particularly the US dollar and euro, can affect the Group's reported profit, net assets, gearing and interest cover. To hedge this translation exposure as far as is reasonably practical, borrowings are taken out in foreign currencies (either directly or via currency swaps), which broadly match those in which the Group's major net assets are denominated. The interest on these borrowings hedges foreign currency denominated income streams. During the 15 months to 31 December 2003, the interest on US dollar borrowings hedged around 50% of the profit generated in US dollars, while interest on euro borrowings hedged around 86% of profit generated in euro and related currencies.

Interest rate exposure is managed within parameters that stipulate that fixed rate borrowings should normally account for no less than 25%, and no more than 75%, of net borrowings for each major currency. This is achieved through the use of fixed rate debt, interest rate swaps and options (such as caps) and forward rate agreements – figure 5 shows the position at 31 December 2003.

Based on the period end net debt position set out in figure 6 and given the underlying maturity profile of investments, borrowings and hedging instruments at that date, a one percentage point rise in US dollar interest rates or a similar rise in euro rates, would increase the net interest charge by approximately £4m in each case. A similar movement in

sterling rates would have the opposite effect, reducing the net interest charge by approximately £13m.

Foreign exchange transaction exposure is managed by the forward purchase or sale of foreign currencies or the use of currency options. Most significant exposures of the Group are in currencies that are freely convertible.

Long-term borrowing requirements at 31 December 2003 were met through bonds denominated in euro. Short-term and medium-term borrowing requirements are principally met from drawing under committed bank facilities. Figure 7 sets out the committed and uncommitted bank facilities at 31 December 2003.

Credit risk on treasury transactions is minimised by operating a policy on the investment of surplus funds that generally restricts counterparties to those with an A credit rating or better, or those providing adequate security. Limits are also set with individual counterparties. Most of the Group's surplus funds are held in the UK or US and there are no material funds where repatriation is restricted as a result of foreign exchange regulations.

The Group's current credit ratings from Standard and Poor's and Moody's for long-term debt are BBB and Baa2 respectively. The Group continues to comply with all of the financial covenants in its loan documentation, none of which represents a material restriction on funding or investment policy in the foreseeable future.

Subsequent to the year end the Group has announced its intention to commence an on-market share repurchase programme for £250m, representing approximately 6% of the issued share capital. The precise timing of purchases and length of the programme will be dependent upon, amongst other things, market conditions. Purchases will commence under the existing authority from shareholders, to be renewed at the Annual General Meeting. Any shares repurchased under this programme will be cancelled.

ACCOUNTING POLICIES

Urgent Issues Task Force ('UITF') Abstract 38 'Accounting for ESOP Trusts' applies for the first time this period. UITF 38 requires that ESOP shares should be deducted from shareholders' funds rather than being shown as an asset. This change in accounting policy has been accounted for as a prior year adjustment and previously reported figures have been restated accordingly. The effect has been to decrease the Group's net assets by £31m in 2002 with no impact on the profit and loss account.

Other than the above, the financial statements have been prepared using accounting policies unchanged from the previous year.

IAS IMPLEMENTATION

The Group will be required to produce financial statements in line with International Financial Reporting Standards ('IFRS') for accounting periods starting after 1 January 2005. This will require an opening balance sheet to be prepared under IFRS as at 1 January 2004, and a full Profit and Loss Account, Balance Sheet and Cash Flow Statement for the year ended 31 December 2004 for comparative purposes. A review of the impact of the change to IFRS is underway within the Group. At this point it is not yet possible to determine the quantitative impact of IFRS.

PENSIONS

In April 2003, MAB became the sponsoring employer for the Six Continents Pension Plan and the Six Continents Executive Pension Plan. Approximately 30% of the assets and liabilities of these Plans were transferred to the new InterContinental Hotels UK Pension Plan and the Britvic Pension Plan, which were established with effect from 1 April 2003. On an FRS 17 basis, the Plans had a deficit of £46m and £76m respectively at 31 December 2003. The defined benefits sections of both Plans are closed to new members.

Additional Company contributions of £4.5m to the InterContinental Hotels Plan and £8.0m to the Britvic Plan were paid in April 2003. A further £1.0m was paid into the Britvic Plan in January 2004.

The only other material defined benefit plan is the US based InterContinental Hotels Pension Plan. This Plan is closed to new members and pensionable service no longer accrues for current employee members. As at 31 December 2003 the assets at market value were \$85m and liabilities (on a 'Projected Benefits Obligation' basis) \$181m, showing a deficit of \$96m.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

1 BASIS OF PREPARATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The statutory results for the year reflect activity for the 15 months ended 31 December 2003 including the discontinued operations of MAB for the period up until Separation. Given the scale of these events the statutory accounts do not readily facilitate an understanding of IHG on a stand alone basis. We have, therefore, prepared unaudited pro forma financial information which show the results for IHG as if it had been independent for the 12 months ended 31 December 2003 and 2002, operating under the financing and taxation structure put in place at the time of the Separation.

The unaudited pro forma financial information comprises the results of those businesses that form IHG following the Separation. Because of the nature of unaudited pro forma financial information, they cannot give a complete picture of the financial position of the Group. The information is provided as guidance only; it is not audited.

Significant changes were made to the financing structure of the Group as part of the Separation making the Group results difficult to compare year-on-year as they include the results of MAB up to Separation. The unaudited pro forma financial information therefore represents the Group results as reported but after excluding the results of MAB and after having been adjusted to reflect the changes made to the financing and taxation structure as part of the Separation, on the assumption that this structure had been in place since 1 October 2001. The unaudited pro forma financial information has been prepared using accounting policies consistent with those used in the Group financial statements.

The IHG unaudited pro forma financial information does not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985. The audited IHG financial statements, including MAB to Separation are shown on pages 28 to 55.

2 PRO FORMA ADJUSTMENTS

The following adjustments have been made to IHG operating profit:

- reversal of cost recoveries from MAB;
- reversal of notional interest credit on the portion of the pension pre-payment that relates to MAB; and
- exclusion of all exceptional items.

3 INTEREST CHARGE

The unaudited pro forma interest charge has been calculated to reflect the post Separation capital structure of the Group as if it had been in place at 1 October 2001, using interest rate differentials applicable under the post Separation borrowing agreements and excluding facility fee amortisation.

4 TAXATION

The unaudited pro forma tax charge is based on a rate of tax for IHG of 25.0% (2002 27.4%) applied to unaudited pro forma profit before taxation.

5 EARNINGS PER SHARE

The unaudited pro forma earnings per share calculation is based on unaudited pro forma profit divided by 734 million shares, being the issued share capital of InterContinental Hotels Group PLC on Separation.

UNAUDITED PRO FORMA PROFIT AND LOSS ACCOUNT

INTERCONTINENTALS HOTELS GROUP	12 months to 31 Dec 2003 £m	12 months to 31 Dec 2002 £m
Turnover:		
Americas	525	569
EMEA	807	800
Asia Pacific	114	128
Central	41	41
Total Hotels	1,487	1,538
Soft Drinks	674	611
Total turnover	2,161	2,149
Operating profit:		
Americas	161	173
EMEA	92	120
Asia Pacific	12	26
Central	(65)	(80)
Total Hotels	200	239
Soft Drinks	83	68
Total operating profit	283	307
Net interest charge	(39)	(49)
Profit before taxation	244	258
Tax charge	(61)	(71)
Minority equity interests	(30)	(26)
Retained profit for the period	153	161
EBITDA	481	500
Earnings per share (pence)	20.8	21.9

UNAUDITED PRO FORMA OPERATING ASSETS STATEMENT

INTERCONTINENTAL HOTELS GROUP	31 Dec 2003 £m	31 Dec 2002 £m
Intangible assets	158	157
Tangible assets	3,951	4,138
Investments	172	215
Fixed assets	4,281	4,510
Stocks	44	43
Debtors	486	456
Creditors – amounts falling due within one year	(597)	(521)
Creditors – amounts falling due after one year	(97)	(143)
Provisions for liabilities and charges	(79)	(17)
Net operating assets	4,038	4,328

UNAUDITED PRO FORMA OPERATING CASH FLOW

INTERCONTINENTAL HOTELS GROUP	12 months to Dec 2003 £m
Operating profit	283
Depreciation and amortisation	198
EBITDA	481
Stocks	(2)
Debtors	(19)
Creditors	61
Provisions and other non-cash items	(10)
Operating activities	511
Capital expenditure	(354)
Disposal proceeds	254
Operating cash flow	411

DIRECTORS' REPORT

The directors present their report for the 15 months ended 31 December 2003.

ACTIVITIES OF THE GROUP

The principal activities of the Group are in hotels and resorts, with worldwide interests through ownership, leasing, management and franchising, and in the manufacture of soft drinks in the United Kingdom.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The Operating and Financial Review on pages 1 to 13, and the Chairman's Statement, the Chief Executive's Review and the Business Reviews presented in the Annual Review and Summary Financial Statement provide information about the Group's businesses, their financial performance during the period and likely developments.

FORMATION OF THE COMPANY AND SEPARATION OF SIX CONTINENTS

InterContinental Hotels Group PLC ('IHG PLC' or 'the Company') was incorporated on 2 October 2002 and became the holding company for the Group on completion of the Separation of Six Continents PLC and the listing of IHG PLC's shares on 15 April 2003. Details of the terms for shareholders of the Separation, including the return of capital, are provided in the Investor Information section of the Annual Review and Summary Financial Statement.

DIVIDENDS

An interim dividend of 6.6p per Six Continents PLC share was paid on 9 April 2003 prior to implementation of the Separation.

An interim dividend of 4.05p per IHG PLC share was paid on 14 October 2003. The directors are recommending a final dividend of 9.45p per IHG PLC share to be paid on 7 June 2004 to shareholders on the Register at close of business on 26 March 2004. Total dividends for the period will amount to £156 million.

EMPLOYEES

IHG employed an average of 29,809 people worldwide in the period ended 31 December 2003.

The Group is committed to providing equality of opportunity to all employees without discrimination and continues to be supportive of the employment and advancement of disabled persons.

Great emphasis is placed on employee communication, particularly on matters relating to the Group's business and its performance. Communication channels include global management conferences, team meetings, informal briefings, in-house publications, and intranets. Regular feedback is obtained through employee focus groups and employee opinion surveys, the results of which are utilised in developing management policies and best practice.

A European Forum brings together senior managers and employee representatives from EU countries to discuss pan-European issues.

INVESTORS IN PEOPLE

The Group continues to support Investors in People ('IIP'). A number of UK and European hotels have accreditation against the rigorous IIP standard set for communicating goals and objectives to employees and for ensuring that they are given the skills required to deliver business strategies.

HEALTH AND SAFETY

The Group strives to provide and maintain a safe environment for all employees, customers and other visitors to its premises and to comply with relevant health and safety legislation. In addition, all Group companies:

- aim to protect the health of employees with suitable, specific, work-based strategies;
- seek to minimise the risk of injury from company activity;
- ensure that through senior management participation, sufficient resources and information are made available and suitable management systems are in place to address health and safety matters; and
- encourage the involvement of employees and aim for continual improvement in health and safety matters through a formal structure with a reporting and review process.

Compliance with Group policy is monitored and audited centrally and an annual health and safety report is included within the risk management reports which are produced for the Board.

CORPORATE AND SOCIAL RESPONSIBILITY

IHG respects the communities in which it operates. Respect for the environment is a core value and the Group is a founder member of the International Hotels Environment Initiative.

IHG's commitment to developing its people and the communities in which it operates is described more fully in the Annual Review and Summary Financial Statement. IHG Environmental and Social Responsibility policies are published on the Company's website.

EMPLOYEE SHARE SCHEMES

IHG encourages employee participation in the success of its businesses through share ownership.

FORMER SIX CONTINENTS SHARE SCHEMES

Under the terms of the Separation, holders of options under the **Six Continents Executive Share Option Schemes** were given the opportunity to exchange their Six Continents PLC options for equivalent value new options over IHG PLC shares. As a result of this exchange 23,195,482 IHG PLC shares were put under option at prices ranging from 295.33p to 593.29p.

Options held under the **Six Continents Savings Related Share Option Schemes** became exercisable for a period of six months from 11 April 2003. Options exercised during this period resulted in the issue of 1,659,515 IHG PLC shares. The remainder of these options lapsed on 11 October 2003.

In February 2003, the **Six Continents Employee Profit Share Scheme** released 1,408,292 Six Continents PLC shares out of profits appropriated to them by the Six Continents PLC Board in 2000. Following Separation, the Six Continents PLC shares held by the Trust on behalf of beneficiaries were exchanged for IHG PLC and Mitchells & Butlers plc shares. At 31 December 2003, 1,549,907 IHG PLC shares were held by the Trustees on behalf of 1,803 participants.

Under the terms of the **Six Continents Special Deferred Incentive Plan** 246,355 IHG PLC shares were transferred to 21 employees in December 2003, reflecting entitlements existing prior to the Separation.

No awards were made during the period under the **Six Continents Long Term Incentive Plan**, which ceased to operate on Separation.

INTERCONTINENTAL HOTELS GROUP SHARE PLANS

A number of IHG Share Plans were established on Separation.

Under the **Sharesave Plan**, options were granted in December 2003 to 1,374 employees over 1,374,559 IHG PLC shares at 420.5p per share, a 20% discount to the market price.

Between June and December 2003, 661,867 IHG PLC shares were awarded under the **Britvic Share Incentive Plan** to be retained in Trust by Hill Samuel ESOP Trustee Limited as free and partnership shares on behalf of 2,421 eligible employees, subject to the Plan rules.

In May and September 2003, options were granted under the **Executive Share Option Plan** to 170 employees over 7,375,272 IHG PLC shares at 438p and 491.75p per share respectively.

In June 2003, conditional rights over 5,281,020 IHG PLC shares were awarded to 46 employees under the **Performance Restricted Share Plan**.

A number of executives participated in the **Short Term Deferred Incentive Plan** during the period but were not eligible to receive an award.

Neither the **Hotels Group Share Incentive Plan** nor the **US Employee Stock Purchase Plan** were operated during the period.

SHARE CAPITAL

During the period, 4,902,352 IHG PLC shares were issued under employee share schemes and the ordinary share capital at 31 December 2003 consisted of 739,364,254 IHG PLC shares of £1 each.

No IHG PLC shares were purchased during the period and the authority granted by shareholders to purchase up to 110,095,835 IHG PLC shares remained unutilised as at the date of this report. The authority remains in force until the Annual General Meeting and a resolution to renew the authority will be put to shareholders at the Annual General Meeting.

SUBSTANTIAL SHAREHOLDINGS

As at 10 March 2004, the Company has been notified by shareholders of the following substantial interests (3% or more) in its ordinary share capital:

Dodge & Cox Funds 3.4%
FMR Corp and Fidelity International Ltd 3.1%
Legal & General Group Plc 4.1%

POLICY ON PAYMENT OF SUPPLIERS

IHG PLC is a holding company and has no trade creditors.

GOING CONCERN

The financial statements which appear on pages 28 to 55 have been prepared on a going concern basis as, after making appropriate enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

CODE OF ETHICS

The Board has agreed the adoption of a specific Code of Ethics for senior financial officers, consistent with the Company's existing guidelines for proper business conduct.

CHARITABLE DONATIONS

IHG continues to support community initiatives and charitable causes and during the period donated £1.42 million. In addition to these cash contributions, employees are encouraged to give their time and skills to a variety of causes and IHG makes donations in kind, such as hotel accommodation.

POLITICAL DONATIONS

The Group made no political donations during the period and proposes to maintain its policy of not making such payments.

ANNUAL GENERAL MEETING

The Notice convening the Annual General Meeting to be held at 3.30pm on Tuesday, 1 June 2004 is contained in a circular sent to shareholders with this Report.

AUDITORS

Ernst & Young LLP have expressed their willingness to continue in office as auditors of the Company and their reappointment will be put to members at the Annual General Meeting.

By order of the Board

Richard Winter
Company Secretary
10 March 2004

CORPORATE GOVERNANCE

COMBINED CODE COMPLIANCE

The Board is committed to compliance with the principles set out in the Combined Code on Corporate Governance ('the Code') and, in the opinion of the Board, the Company, since its listing, and Six Continents PLC prior to the Separation, have complied with the Code requirements as they apply for the 15 month period to 31 December 2003.

Revisions have recently been made to the Code for companies with a financial year beginning on or after 1 November 2003. Although compliance with the revised Code is not yet required, it has been decided to present this report having regard to the changes, as far as possible.

The Board is responsible for the Group's system of internal control and risk management and for reviewing its effectiveness. In order to discharge that responsibility, the Board has established the procedures necessary to apply the Code, including clear operating procedures, lines of responsibility and delegated authority.

Business performance is managed closely and in particular, the Board, the Executive Committee and the Regional Executive Committees have established processes, as part of the normal good management of the business, to monitor:

- strategic plan achievement, through a comprehensive series of Group and regional strategic reviews;
- financial performance, within a comprehensive financial planning and accounting framework;
- capital investment performance, with detailed appraisal and authorisation processes; and
- risk management, (through an ongoing process, which has been in place up to the date of the accounts) providing assurance through reports from both the Head of Risk Management and the Head of Internal Audit that the significant risks faced by the Group are being identified, evaluated and appropriately managed, having regard to the balance of risk, cost and opportunity.

In addition, the Audit Committee receives:

- reports from the Head of Internal Audit on the work carried out under the annual internal audit plan, including an annual report on the operation of the monitoring processes set out above to support the Board's annual statement on internal control; and
- reports from the external auditors.

The Board has conducted a review of the effectiveness of the system of internal control during the period ended 31 December 2003, taking account of any material developments which have taken place since the year end. The review was carried out through the monitoring process

set out above, which accords with the Turnbull Guidance. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and it must be recognised that it can only provide reasonable and not absolute assurance against material misstatement or loss. In that context, the review, in the opinion of the Board, did not indicate that the system was ineffective or unsatisfactory.

To comply with the Group's US obligations, arising from the Sarbanes-Oxley Act 2002, a project has been established to identify, evaluate and test critical internal financial controls across all our business units. This should enable representations to be made regarding the effectiveness of internal financial controls in time for the 2005 deadline for compliance.

With regard to insurance against risk, it is not practicable to insure against every risk to the fullest extent. The insurance market remains difficult both as to breadth and cost of coverage and in some cases external insurance is not available at all or not at an economic price. The Group regularly reviews both the type and amount of external insurance that it buys, bearing in mind the availability of such cover, its price and the likelihood and magnitude of the risks involved.

BOARD AND COMMITTEE STRUCTURE

To support the principles of good corporate governance, the Board and Committee structure operates as set out below. The structures and method of operation of all the main IHG PLC Committees reflect the practices of Six Continents PLC prior to Separation.

THE BOARD

The Board is responsible to the shareholders for the good standing of the Company, the management of its assets for optimum performance and the strategy for its future development. Seven regular Board meetings are scheduled each year and further meetings are held as needed. Six Board meetings were held during 2003 since the Company was listed in April 2003. These were attended by all directors with the exception that Messrs Kugler, Larson, Prosser and Webster could not attend one meeting each and Sir Howard Stringer could not attend two meetings. The fact that a number of non-executive directors were unable to attend all scheduled Board and related Committee meetings throughout the period was unavoidable during the first year of the Company's operations and in no way detracts from the level of commitment of those individuals to the Company. It did not prove possible during the Company's first year to schedule certain meetings on dates available to all concerned, as a result of the appointment of new directors with existing commitments.

All directors are briefed by means of comprehensive papers in advance of Board meetings and by presentations at meetings. Their understanding of the Group's operations is enhanced by regular business presentations outside Board meetings

and visits to the regions. At least one Board meeting a year is held overseas.

Although no formal performance evaluation of the Board took place during the period, it is intended that such a review of the Board and of individual non-executive directors will take place in early 2005 and that the process to be adopted will be reported in next year's Annual Report.

The following were directors of the Company during the period since listing:

	Position	Date of appointment
Sir Ian Prosser ⁺	Chairman	10.2.03
Richard North	Chief Executive	10.2.03
Richard Solomons	Finance Director	10.2.03
Richard Hartman	Managing Director, Europe, Middle East & Africa	15.4.03
Stevan Porter	President, Americas	15.4.03
Ralph Kugler	Non-executive director	15.4.03
Robert C Larson	Non-executive director	15.4.03
David Prosser ⁺	Non-executive director	15.4.03
Sir Howard Stringer	Non-executive director	15.4.03
David Webster [‡]	Deputy Chairman and senior independent director	15.4.03

* Retired on 31 December 2003.

⁺ No family relationship between Sir Ian Prosser and David Prosser.

[‡] Appointed non-executive Chairman on 1 January 2004.

The following were directors of the Company prior to listing. They received no remuneration in respect of their appointments.

	Appointed	Resigned
Hackwood Directors Limited	2.10.02	10.2.03
Hackwood Secretaries Limited	2.10.02	10.2.03

The following served as directors of Six Continents PLC during the period, but resigned prior to the Separation: Roger Carr, Tim Clarke, Sir Geoffrey Mulcahy, Thomas Oliver and Bryan Sanderson.

Current directors' biographical details are set out on page 20 of the Annual Review and Summary Financial Statement 2003.

All IHG PLC directors who were not previously employees or directors of Six Continents PLC (Ralph Kugler, David Prosser and David Webster) have participated in induction programmes designed to meet their individual needs and intended to introduce them to, and familiarise them with, the principal activities of the Group. The updating of all directors' skills and knowledge is a progressive exercise.

All members of the Board will retire and offer themselves for reappointment at the Annual General Meeting on 1 June 2004. Details of the executive directors' service contracts are set out on page 22. The Chairman and the four independent non-executive directors have letters of appointment.

CHAIRMAN

Sir Ian Prosser was Chairman throughout the period. He relinquished his executive responsibilities in July 2003 but retained his external directorships of BP p.l.c. and GlaxoSmithKline plc and his roles on the President's Committee of the CBI and on the World Travel and Tourism Council.

David Webster was appointed non-executive Chairman on 1 January 2004. This appointment was subject to his planned retirement as a director and Chairman of Safeway plc, on completion of the sale of that company to Wm Morrison Supermarkets Plc. This condition was fulfilled on 8 March 2004. The Chairman carries responsibility for ensuring the efficient operation of the Board and its Committees, for seeing that corporate governance matters are addressed, and for representing the Company externally and communicating particularly with shareholders. He also ensures that all directors are fully informed of relevant matters, working closely with the Chief Executive and the Company Secretary.

CHIEF EXECUTIVE

Richard North is the Chief Executive, with responsibility for recommending to the Board and for implementing the Company's strategic objectives. He is responsible for the executive management of the Group.

SENIOR INDEPENDENT DIRECTOR

David Webster was Deputy Chairman and senior independent director of the Company following his appointment in April 2003. Following David Webster's appointment as Chairman, David Prosser is now the Company's senior independent director.

COMMITTEES

Executive Committee This Committee is chaired by the Chief Executive, Richard North. It consists of the executive directors and senior executives from the Group and the regions and usually meets monthly. Its role is to consider and manage a range of important strategic and business issues facing the Group. It is responsible for monitoring the performance of the regional Hotels businesses and the Britvic business and is authorised to approve capital and revenue investment within levels agreed by the Board.

Audit Committee The Audit Committee is chaired by David Webster who has financial experience. He will relinquish his role as Chairman of the Committee when a suitable replacement independent non-executive director has been identified. The Committee consists of all the non-executive directors and is scheduled to meet at least four times a year. The Committee has met four times since listing. The Committee assists the Board in observing its responsibilities for ensuring that the Group's financial systems provide accurate and up to date information on its financial position and that the Group's published financial statements represent a true and fair reflection of this position.

It also assists the Board in ensuring that appropriate accounting policies, internal controls and compliance procedures are in place. The external auditor attends its meetings as does the Head of Internal Audit, who has direct access to the Chairman of the Committee.

To ensure that the independence and objectivity of the external auditor is not compromised, the Audit Committee has introduced a policy whereby all proposals for the provision of non-audit services by the external auditor must be pre-approved by the Audit Committee or its delegated member. At all times, the overriding consideration is to ensure that the provision of non-audit services does not impact the external auditor's independence and objectivity.

Disclosure Committee The Disclosure Committee, chaired by the Group's Financial Controller, and comprising the Company Secretary and other senior executives, reports to the Chief Executive and the Finance Director, and to the Audit Committee. Its duties include ensuring that information required to be disclosed in reports pursuant to UK and US accounting, statutory or listing requirements, fairly represent the Group's position in all material respects.

Remuneration Committee The Remuneration Committee, chaired by David Prosser, consists of all the non-executive directors and meets at least three times a year. Its role is described on page 19. The Committee has met four times since listing.

Nomination Committee The Nomination Committee's quorum comprises any three non-executive directors although, where possible, all non-executive directors are present. It is chaired by the Chairman of the Company and is responsible for nominating, for the approval of the Board, candidates for appointment to the Board. The Committee generally engages external consultants to advise on candidates for Board appointments, and did so in connection with the appointments of Messrs Kugler, Prosser and Webster. The Committee also assists the Board in identifying and developing the role of the senior independent director. The Committee has met formally once since listing.

The selection and appointment of David Webster as the new Chairman of the Company was carefully considered by both the Nomination Committee and the Board. Consideration was also given to other possible suitable persons. The decision to appoint David Webster was unanimous.

General Purposes Committee The General Purposes Committee comprises any two executive directors or any one executive director together with a senior officer from an agreed and restricted list of senior executives. It is always chaired by a director. It attends to business of a routine nature and to the

administration of matters, the principles of which have been agreed previously by the Board or an appropriate Committee.

NON-EXECUTIVE DIRECTORS

The Company has a team of experienced independent non-executive directors who represent a strong source of advice and judgement. There are four such directors, excluding the current non-executive Chairman, each of whom has significant external commercial experience.

The Board's current composition meets the requirement of the revised Code for at least half the Board, excluding the Chairman, to be independent non-executive directors. In the Board's view, all of the current non-executive directors satisfy the tests set out in the Code for independence.

RE-ELECTION OF DIRECTORS

The Company ensures that directors submit themselves for re-election at least every three years.

INDEPENDENT ADVICE

There is an agreed procedure by which members of the Board may take independent professional advice in the furtherance of their duties.

COMPANY SECRETARY

All directors have access to the advice and services of the Company Secretary. His responsibilities include ensuring good information flows to the Board and its Committees and between senior management and the non-executive directors. He facilitates the induction of directors, assisting them in fulfilling their duties and responsibilities and, through the Chairman, he is responsible for advising the Board on corporate governance.

SHAREHOLDER RELATIONS

The Company has a programme of meetings with its major institutional shareholders, which provides an opportunity to discuss, on the back of publicly available information, the progress of the business. The Chairman, the senior independent director and other non-executive directors are available to meet with major shareholders to understand their issues and concerns and to discuss governance and strategy. Additionally, the Annual General Meeting provides a useful interface with private shareholders, many of whom are also customers. The Chairmen of the Audit, Remuneration and Nomination Committees are available at those meetings to answer questions. The availability to shareholders of information about the Group is maintained through the website: www.ihgplc.com

FURTHER INFORMATION

The terms of reference of the Audit, Disclosure, Remuneration and Nomination Committees, and of the Company's remuneration consultants, are available from the Company Secretary's office on request. The terms and conditions of appointment of non-executive directors are also available on request.

REMUNERATION REPORT

This Report has been prepared by the Remuneration Committee and has been approved by the Board. It complies with Schedule 7A to the Companies Act 1985, which incorporates the Directors' Remuneration Report Regulations 2002, and also with the Combined Code. Although compliance with the recently revised Code is not yet required, this Report, which will be put to shareholders for approval at the forthcoming Annual General Meeting, has regard to the changes, as far as possible.

1 THE REMUNERATION COMMITTEE

Since listing, the Committee has comprised the following non-executive directors:

David Prosser – Chairman

Ralph Kugler

Robert C Larson⁺

Sir Howard Stringer

David Webster

Reflecting the revised Code requirements, David Webster stepped down from the Committee upon his appointment as Chairman of the Board on 1 January 2004. No member of the Committee has any personal financial interest, other than as a shareholder, in the matters to be decided by the Committee.

The Committee advises the Board on overall remuneration policy. The Committee also determines, on behalf of the Board, and with the benefit of advice from external consultants and members of the Human Resources department, the remuneration packages of the executive directors and other members of the Executive Committee.

Those who provided material advice or services to the Committee during the period since its formation were:

Jim Larson⁺ – Executive Vice President Human Resources

David House – Senior Vice President & Head of Reward

Sir Ian Prosser – Chairman

Richard North – Chief Executive

Linklaters

Towers Perrin Inc.

⁺ No family relationship between Robert C Larson and Jim Larson.

The Executive Vice President Human Resources has direct access to the Chairman of the Committee. Messrs J Larson and House, who are Human Resource professionals and employees, have advised the Committee on all aspects of the Group's reward policies and structures. Towers Perrin Inc., an external consultancy, advised the Committee on reward structures and levels applicable in the markets relevant to the Group. Towers Perrin Inc. did not provide any other services to the Group. Linklaters provided other legal services to the Group.

Messrs J Larson and House, Linklaters and Towers Perrin Inc. were originally appointed by the Group.

2 POLICY ON REMUNERATION OF NON-EXECUTIVE DIRECTORS

Non-executive directors, including the Chairman, have letters of appointment. Their appointment and subsequent reappointment is subject to election and re-election by shareholders.

Non-executive directors are paid a fee which is approved by the Board on the recommendation of the executive directors, having taken account of the fees paid in other companies of a similar size, and the skills and experience of the individual.

Remuneration levels were last reviewed in 2002. In view of the significant increased demands on non-executive directors as a result of new corporate governance requirements, a review of non-executive directors' remuneration is currently being undertaken.

3 POLICY ON REMUNERATION OF EXECUTIVE DIRECTORS AND SENIOR EXECUTIVES

The following policy has applied since listing and will apply in future years, subject to ongoing review.

3.1 TOTAL LEVEL OF REMUNERATION

The Committee aims to ensure that remuneration packages are offered which:

- attract high quality executives in an environment where compensation levels are based on global market practice;
- provide appropriate retention strength against loss of key executives;
- drive aligned focus and attention to key business initiatives and appropriately reward their achievement;
- support equitable treatment between members of the same executive team; and
- facilitate global assignments and relocation.

The Committee is aware that, as a UK listed company, IHG PLC's incentive arrangements may be expected to recognise UK investor guidelines. However, given the global nature of the Hotels business, an appropriate balance needs to be drawn in the design of relevant remuneration packages between domestic and international expectations.

3.2 THE MAIN COMPONENTS

The Group operates performance-related reward policies. These are designed to provide the appropriate balance between fixed remuneration and variable 'risk' reward, which is linked to the performance of both the Group and the individual.

Group performance-related measures are chosen carefully to ensure a strong link between reward and true underlying financial performance, and emphasis is placed on particular areas requiring executive focus.

Individual performance is measured through an assessment of comprehensive business unit deliverables, demonstrated leadership behaviours, modelling the Group values and the

REMUNERATION REPORT

achievement of specific Key Performance Objectives. At the executive level, Key Performance Objectives are linked directly to the Group's strategic priorities. At a minimum, the individual performance of the executive directors is assessed on an annual basis.

The normal policy for executive directors is that, using 'target' or 'expected value' calculations, their performance-related incentives will equate to approximately 70% of total annual remuneration (excluding benefits).

The main components of remuneration are:

Basic salary The salary for each executive director is based on individual performance and on information from independent professional sources on the salary levels for similar jobs in groups of comparable companies. Internal relativities and salary levels in the wider employment market are also taken into account.

In addition, benefits are provided to executive directors in accordance with the policy applying to other executives in their geographic location.

Annual performance bonus Within the Short Term Deferred Incentive Plan, challenging performance goals are set and these must be achieved before the maximum bonus becomes payable. These goals include both personal objectives and targets linked to the Group's financial performance. For executive directors, the maximum bonus opportunity is 100% of salary, with 30% linked to personal objectives, 35% to adjusted earnings per share and 35% to earnings before exceptional items, interest and taxation. The bonus will normally be paid in IHG PLC shares and deferred. Matching shares may also be awarded up to 0.5 times the deferred amount. Such awards are conditional on the directors' continued employment with the Group until the release date. The shares will normally be released in equal amounts at the end of each of the three years following deferral.

The executive directors will be expected to hold all shares earned from the Group's remuneration plans until the value of their holding equates to twice their basic salary or three times in the case of the Chief Executive.

Bonuses are not pensionable.

Executive share options The Committee believes that share ownership by executive directors and senior executives strengthens the link between the individual's personal interest and that of the shareholders. Grants of options are normally made annually and, except in exceptional circumstances, will not, in any year, exceed three times annual salary for executive directors.

A performance condition has to be met before options can be exercised. The performance condition is set by the Committee. For options granted in 2003, the Company's adjusted earnings per share over the three-year period ending 31 December 2005 must increase by at least nine percentage points over the increase in the UK Retail Prices Index ('RPI') for the same period for one-third of the options granted to vest; 12 percentage points over the increase in RPI for the same period for two-thirds of the options granted to vest; and 15 percentage points over the increase in RPI for the same period for the full award to vest. This was felt to be a realistic but challenging condition in the current economic climate. The achievement or otherwise of the performance condition is assessed, based on the Group's published results; such assessment is then reviewed by the external auditor.

Executive directors were granted options on 30 May 2003 as shown in the table on page 26.

It is the current intention for similar performance conditions to apply to options granted in 2004 and later years.

Executive share options are not pensionable.

Executive directors are entitled to participate in all-employee share schemes. Options granted under the IHG Sharesave Plan are not subject to performance conditions and are not pensionable.

Performance Restricted Shares The Performance Restricted Share Plan allows executive directors and eligible employees to receive share awards, subject to the satisfaction of a performance condition, set by the Committee, which is normally measured over a three-year period. Awards are normally made annually and, except in exceptional circumstances, will not exceed three times annual salary for executive directors. In determining the level of awards within this maximum limit, the Committee takes into account the level of executive share options granted to the same person. The grant of awards is restricted so that in each year the aggregate of (i) 20% of the market value of the executive share options and (ii) 33% of the market value of Performance Restricted Shares, will not exceed 130% of annual salary, taking the market value in each case as at the date of grant.

For the 2003/05 cycle, performance will be measured by reference to:

- the increase in IHG PLC Total Shareholder Return ('TSR') over the Performance Period relative to 11 identified comparator companies; Accor, De Vere, Hilton Group, Hilton Hotels Corp, Host Marriott, Marriott Hotels, Millenium & Copthorne, NH Hotels, Sol Melia, Starwood Hotels and Thistle (up to the point at which this company ceased to be listed); and
- the increase in IHG Return On Capital Employed ('ROCE') over the performance period.

In respect of TSR performance, 10% of the award will be released for the achievement of 6th place within the TSR group and 50% of the award will be released for the achievement of 1st or 2nd place. In respect of ROCE performance, 10% of the award will be released for the achievement of 30% growth and 50% of the award will be released for the achievement of 80% growth. Vesting between all stated points will be on a straight line basis.

It is the current intention that similar performance targets will apply to awards made in 2004 and later years.

A 'transitional' award was also made in 2003, subject to TSR performance over the period to 31 December 2004. For executive directors the maximum value of this award equated to 140% of salary.

Benefits under the Performance Restricted Share Plan are not pensionable.

3.3 COMPANIES USED FOR COMPARISON

In assessing levels of pay and benefits, IHG compares the packages offered by different groups of comparator companies. These groups are chosen having regard to participants':

- size – turnover, profits and the number of people employed;
- diversity and complexity of businesses;
- geographical spread of businesses; and
- industry type.

External consultants are used to advise the Committee on the structure and level of pay and benefits in IHG's markets.

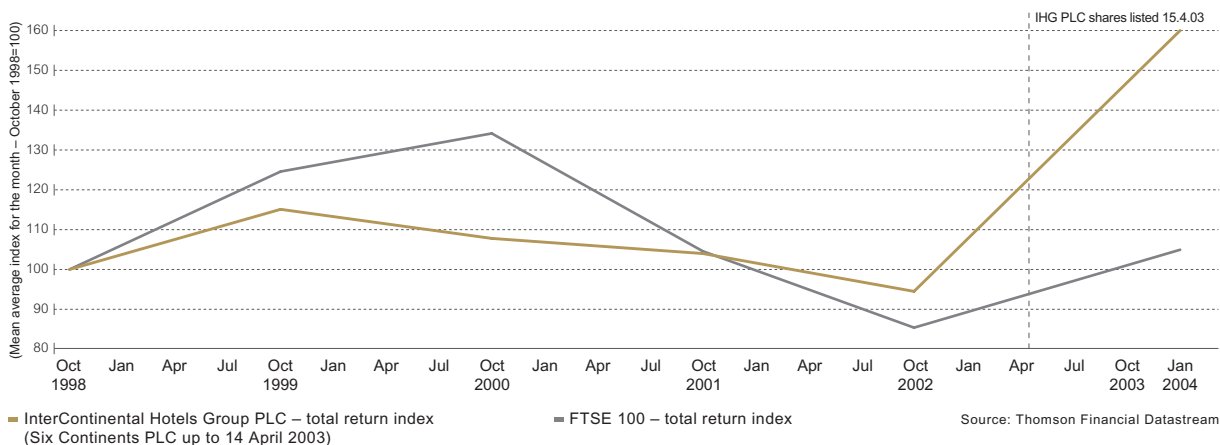
3.4 POLICY ON EXTERNAL APPOINTMENTS

The Company recognises that its directors may be invited to become non-executive directors of other companies and that such duties can broaden experience and knowledge, and benefit the business. Executive directors are, therefore, allowed to accept one non-executive appointment (excluding positions where the director is appointed as the Company's representative), subject to Board approval, as long as this is not likely to lead to a conflict of interest, and to retain the fees received. Richard North receives £36,000 pa for his services as a non-executive director.

3.5 PERFORMANCE GRAPH

Since its listing on 15 April 2003, the Company has been a member of the FTSE 100 index. The graph below measures the performance of Six Continents PLC up to Separation, and subsequently the performance of IHG PLC, assuming dividends are reinvested, compared with the total shareholder return performance achieved by the FTSE 100 companies.

INTERCONTINENTAL HOTELS GROUP TOTAL SHAREHOLDER RETURN v FTSE 100



3.6 CONTRACTS OF SERVICE

A) POLICY

The Remuneration Committee's policy is for executive directors to have rolling contracts with a notice period of 12 months.

Prior to Separation, each of the executive directors, Richard Hartman, Richard North, Stevan Porter and Richard Solomons entered into service agreements with a notice period of 12 months. All new appointments are intended to have 12 month notice periods.

No provisions for compensation for termination following change of control, or for liquidated damages of any kind, are included in the current directors' contracts. In the event of any early termination of an executive director's contract the policy is to seek to minimise any liability.

Sir Ian Prosser continued as executive Chairman under the terms of his previous service agreement until his normal retirement age of 60 years on 5 July 2003. After that date, Sir Ian entered into a new service agreement as non-executive Chairman for a fixed period which expired on 31 December 2003.

Non-executive directors, Ralph Kugler, Robert C Larson, David Prosser, Sir Howard Stringer and David Webster signed letters of appointment effective from the listing of IHG PLC.

David Webster became non-executive Chairman of the Company on 1 January 2004 on new terms.

B) DIRECTORS' CONTRACTS

Directors	Contract Effective Date	Unexpired Term/ Notice Period
Richard Hartman	15.4.03	12 months
Richard North	15.4.03	12 months
Stevan Porter	15.4.03	12 months
Richard Solomons	15.4.03	12 months
Sir Ian Prosser	6.7.03	Expired

3.7 POLICY REGARDING PENSIONS

UK-based executive directors and senior employees participate on the same basis in the executive section of the InterContinental Hotels UK Pension Plan and, if appropriate, the InterContinental Executive Top-Up Scheme. Stevan Porter and senior US-based executives participate in US retirement benefits plans. Executives in other countries, who do not participate in these plans, will participate in local plans, or the Six Continents International Retirement Income Plan.

In accordance with latest legislation, the information provided in the following pages of this Report has been audited by Ernst & Young LLP.

DIRECTORS' EMOLUMENTS SINCE THE LISTING OF INTERCONTINENTAL HOTELS GROUP PLC ON 15 APRIL 2003

	Basic salaries and fees £000	Performance payments £000	Benefits £000	Total emoluments excluding pensions 15.4.03 to 31.12.03 £000	1.10.01 to 30.9.02 £000
Executive directors					
Richard North	429	398	27	854	629
Richard Hartman	260	214	189	663	–
Stevan Porter	264	218	28	510	–
Sir Ian Prosser*	183	276	5	464	971
Richard Solomons	250	232	15	497	–
Non-executive directors					
Ralph Kugler**	30	–	–	30	–
Robert C Larson	30	–	–	30	36
David Prosser#	35	–	–	35	–
Sir Ian Prosser*	196	–	11	207	–
Sir Howard Stringer	30	–	–	30	13
David Webster***	57	–	–	57	–
Total	1,764	1,338	275	3,377	1,649

* Became non-executive Chairman on 6 July 2003.

** All fees due to Ralph Kugler were paid to Unilever.

Fees paid to David Prosser included a proportion of a £7,500 pa fee payable to the Chairman of the Remuneration Committee in recognition of the additional responsibilities of this role.

* Fees paid to David Webster included a proportion of an £80,000 pa fee payable to the senior independent director in recognition of the additional responsibilities of this role.

*** Became non-executive Chairman on 1 January 2004 for which a fixed fee of £275,000 pa is paid.

Note: Thomas Oliver retired from Six Continents PLC on 31 March 2003 and has not served as a director of IHG PLC. However, he has an ongoing consultancy agreement in respect of which he received fees of £115,000 during the period. In addition, he had an ongoing healthcare benefit of £7,000 during the period.

The figures above represent emoluments earned as directors during the period since the listing of IHG PLC following Separation. Comparative figures for 2002 apply only to those directors who also served as directors of Six Continents PLC. These figures represent their emoluments for the financial year ended 30 September 2002. 'Performance payments' include payments in respect of participation in the Short Term Deferred Incentive Plan (but excluding any matching shares) and payments from the Performance Restricted Share Plan 'transitional incentive' for the period ended 31 December 2003 (further details of which are set out on page 25 under Long Term Reward).

'Benefits' incorporate all tax assessable benefits arising from the individual's employment. For Sir Ian Prosser and Messrs Hartman, North and Solomons, this relates in the main to the provision of a fully expensed company car and private healthcare cover. In addition, Mr Hartman received housing, child education and relocation benefits. For Stevan Porter, benefits relate in the main to private healthcare cover and relocation.

	STDIP shares held at 15.4.03*	Vesting date	STDIP shares awarded during the period 15.4.03 to 31.12.03	STDIP shares vested during the period 15.4.03 to 31.12.03	Award date	Market price per share at award date**	Market price per share at vesting date	STDIP shares held at 31.12.03	Vesting date	Value based on share price at 31.12.03***
SHORT TERM DEFERRED INCENTIVE PLAN (STDIP)										
Directors										
Richard North	39,628	18.12.03	–	39,628	18.12.02	335.5p	540.75p			
	3,789	31.5.04						3,789	31.5.04	20,044
Stevan Porter	55,428	18.12.03	–	55,428	18.12.01	434.3p	540.75p			
	55,428	18.12.04						55,428	18.12.04	293,214

Messrs Hartman, North, Porter and Solomons participated in the STDIP during the period 15.4.03 to 31.12.03, but were not eligible to receive an award.

* IHG PLC shares provided at 372p per share in equal value exchange for Six Continents PLC shares outstanding at 14.4.03 under the Six Continents Special Deferred Incentive Plan.

** Award originally made in Six Continents PLC shares. The share prices shown are the equivalent IHG PLC share prices, based on a five day average immediately preceding the award date.

*** The IHG PLC share price on 31.12.03 was 529p per share.

DIRECTORS' EMOLUMENTS FROM SIX CONTINENTS PLC FROM 1 OCTOBER 2002 TO 14 APRIL 2003	Basic salaries and fees £000	Performance payments £000	Benefits £000	Total emoluments excluding pensions	
				1.10.02 to 14.4.03 £000	1.10.01 to 30.9.02 £000
Executive directors					
Tim Clarke*	322	26	14	362	694
Iain Napier (resigned 4 September 2000)**	–	–	409	409	–
Richard North	282	31	16	329	629
Thomas Oliver***	263	409	283	955	956
Sir Ian Prosser	438	38	12	488	971
Non-executive directors					
Roger Carr*	56	–	–	56	46
Robert C Larson	23	–	–	23	36
Sir Geoffrey Mulcahy*	23	–	–	23	36
Bryan Sanderson*	23	–	–	23	36
Sir Howard Stringer	23	–	–	23	13
Total	1,453	504	734	2,691	3,417

* In accordance with the principle of full disclosure, details of emoluments earned by former directors of Six Continents PLC who have not served as directors of IHG PLC have also been presented.

+ As previously disclosed in the Six Continents PLC Annual Report 2001, Iain Napier, a former director, was entitled to certain benefits under the terms of an agreement reached with him prior to the sale of Bass Brewers. Specifically, Mr Napier was entitled to an annuity (index linked at 5% pa) after 22 May 2003 of approximately £24,000 pa or an appropriate lump sum. The figure above represents the lump sum paid to Iain Napier in this regard.

** Thomas Oliver retired on 31 March 2003 and, under the terms of his contract, was repatriated to the United States.

REMUNERATION REPORT

SIX CONTINENTS SPECIAL DEFERRED INCENTIVE PLAN (SDIP)	SDIP shares held at 1.10.02		SDIP shares awarded during the period 1.10.02 to 14.4.03		Market price per share at award date**		SDIP shares vested during the period 1.10.02 to 14.4.03		Market price per share at award date**		Market price per share at vesting date		SDIP shares held at 14.4.03		Value based on share price at 14.4.03***	
	SDIP shares held at 1.10.02	Vesting date	SDIP shares awarded during the period 1.10.02 to 14.4.03	Market price per share at award date**	Vesting date	SDIP shares vested during the period 1.10.02 to 14.4.03	Award date	Market price per share at award date**	Market price per share at vesting date	SDIP shares held at 14.4.03	Vesting date	Value based on share price at 14.4.03***	£			
Directors[†]																
Tim Clarke	44,433	18.12.02	23,790	534p	18.12.03	44,433	18.12.01	691.1p	502p	23,790	18.12.03	140,837				
			2,195	592p	31.5.04					2,195	31.5.04	12,994				
Richard North	72,348	18.12.02	24,901	534p	18.12.03	72,348	18.12.01	691.1p	502p	24,901	18.12.03	147,414				
			2,381	592p	31.5.04					2,381	31.5.04	14,096				
Thomas Oliver*	74,104	16.4.03	20,806	534p	16.4.03					94,910	16.4.03	561,867				

[†] Neither Tim Clarke nor Thomas Oliver, both former directors of Six Continents PLC, have served as directors of IHG PLC.

* The vesting date for all awards applicable to Thomas Oliver was extended from 10.3.03 to 16.4.03.

** The share prices shown are based on a five day average immediately preceding the award date.

*** The Six Continents PLC share price on 14.4.03 was 592p per share.

4 DIRECTORS' PENSIONS

The following information relates to the pension arrangements provided for Richard Hartman (from 2 September 2003), Richard North, Sir Ian Prosser, Richard Solomons and Tim Clarke under the Six Continents Executive Pension Plan ('the SC Plan') up to 31 March 2003, and the executive section of the InterContinental Hotels UK Pension Plan ('the IC Plan') from 1 April 2003. In the cases of Richard North, Richard Solomons and Tim Clarke, they were also members of the unfunded Six Continents Executive Top-Up Scheme ('SCETUS') up to 14 April 2003, and Richard Hartman, Richard North and Richard Solomons were members of the unfunded InterContinental Executive Top-Up Scheme ('ICETUS') from 15 April 2003 (2 September 2003 in the case of Richard Hartman). Richard Hartman was a member of the Six Continents International Retirement Income Plan ('SCIRIP') until 1 September 2003 at which point his UK pension arrangements replaced his international retirement arrangements.

The SC Plan and executive section of the IC Plan are similar in that they are funded, Inland Revenue approved, final salary, occupational pension schemes. The main features applicable to the executive directors are: a normal pension age of 60; pension accrual of 1/30th of final pensionable salary for each year of pensionable service; life assurance cover of four times pensionable salary; pensions payable in the event of ill health; and spouses' and dependants' pensions on death.

All plan benefits are subject to Inland Revenue limits. Where such limitation is due to the earnings 'cap', SCETUS and/or ICETUS are used to increase pension and death benefits to the level that would otherwise have applied. The SCIRIP is a Jersey-based funded international defined contribution plan.

Thomas Oliver (up to April 2003) and Stevan Porter have retirement benefits provided via the 401(k) Retirement Plan for employees of Six Continents Hotels Inc. ('401(k)') and the Six Continents Hotels Inc. Deferred Compensation Plan ('DCP').

15 April 2003 to 31 December 2003

DIRECTORS' PENSION BENEFITS	Age at 31 Dec 2003	Directors' contributions (note 1) £	Transfer value of accrued pension		Increases in transfer value over the period, less directors' contributions £	Increase in accrued pension (note 2) £ pa	Increase in accrued pension (note 3) £ pa	Accrued pension at 31 Dec 2003 (note 4) £ pa
			15 April 2003 £	31 Dec 2003 (note 5) £				
Richard Hartman	57	3,700	–	652,200	648,500	38,400	38,400	38,400
Richard North	53	9,900	1,930,700	2,423,800	483,200	32,500	28,100	180,000
Sir Ian Prosser	60	7,200	11,153,800	11,352,500	191,500	7,500	7,500	573,100
Richard Solomons	42	9,900	418,500	569,400	141,000	18,000	16,300	75,500

1 October 2002 to 14 April 2003

DIRECTORS' PENSION BENEFITS	Age at 14 April 2003	Directors' contributions (note 1) £	Transfer value of accrued pension		Increases in transfer value over the period, less directors' contributions £	Increase in accrued pension (note 2) £ pa	Accrued pension at 14 April 2003 (note 4) £ pa
			1 Oct 2002 (note 5) £	14 April 2003 £			
Tim Clarke	46	7,300	1,261,000	1,903,500	635,200	15,000	208,200
Richard North	53	7,300	1,408,400	1,903,700	515,000	12,800	147,500
Sir Ian Prosser	59	21,600	10,727,100	11,153,800	405,100	17,800	565,600
Richard Solomons	41	7,300	288,700	418,500	122,500	6,600	57,500

Notes to Directors' Pension Benefits table

note 1: Contributions paid in the period by the directors under the terms of the plans. Richard Hartman's contributions were paid after 31 December 2003.

note 2: The absolute increase in accrued pension during the period.

note 3: The increase in accrued pension during the period excluding any increase for inflation, on the basis that increases to accrued pensions are applied at 1 October.

note 4: Accrued pension is that which would be paid annually on retirement at 60, based on service to the end of the period.

note 5: The transfer value in respect of Sir Ian Prosser as at 1 October 2002 has been restated to allow for his right to draw the accrued pension without deduction, which was already funded and charged in previous accounts, and to allow for a 3% increase to his annual salary for pension purposes on 1 October 2001 and 2002. The transfer value shown in respect of Sir Ian as at 31 December 2003 is the figure at his date of retirement of 5 July 2003.

The figures shown in the above tables relate to the final salary plans only. For defined contribution plans, the contributions made by and in respect of Richard Hartman, Thomas Oliver and Stevan Porter are:

	1 October 2002 to 14 April 2003 Company contribution to			15 April 2003 to 31 December 2003 Company contribution to		
	SCIRIP £	DCP £	401(k) £	SCIRIP £	DCP £	401(k) £
Richard Hartman	27,700			22,800		
Thomas Oliver		54,100	4,900		13,100	–
Stevan Porter		21,900	7,700		18,900	300

The aggregate of these contributions was £171,400.

The 401(k) is a tax qualified plan providing benefits on a defined contribution basis, with the member and the relevant company both contributing. The DCP is a non-tax qualified plan, providing benefits on a defined contribution basis, with the member and the relevant company both contributing.

The following additional information relates to directors' pensions under the various plans.

A) DEPENDANTS' PENSIONS On the death of a director before his normal retirement age, a widow's pension equal to one-third of his own pension is payable; a child's pension of one-sixth of his pension is payable for each of a maximum of two eligible children. On the death of a director after payment of his pension commences, a widow's pension of two-thirds of the director's full pension entitlement is payable; in addition, a child's pension of one-sixth of his full pension entitlement is payable for each of a maximum of two eligible children.

B) EARLY RETIREMENT RIGHTS After leaving the service of the relevant company, the member has the right to draw his accrued pension at any time after his 50th birthday, subject to a discount for early payment.

C) PENSION INCREASES All pensions (in excess of Guaranteed Minimum Pensions) are subject to contractual annual increases in line with the annual rise in RPI, subject to a maximum of 5% per annum. In addition, it is current policy to pay additional increases based on two-thirds of any rise in RPI above 5% per annum.

D) OTHER DISCRETIONARY BENEFITS Other than the discretionary pension increases mentioned in C above, there are no discretionary practices which are taken into account in calculating transfer values on leaving service.

5 LONG TERM REWARD

Performance Restricted Share Plan This plan was introduced on Separation and in 2003 there were three cycles in operation.

The awards made in respect of the performance period ended 31 December 2003, which are to be paid in cash, were:

Directors	Awards held at 15.4.03 £000	Pre-tax awards granted during period to 31.12.03 £000	Total pre-tax awards held at 31.12.03 £000
Richard Hartman	–	214	214
Richard North	–	398	398
Stevan Porter	–	218	218
Sir Ian Prosser*	–	276	276
Richard Solomons	–	232	232

This 'transitional' award was based on performance during the period to 31 December 2003 where the performance measure related to the achievement of actual and annualised overhead reduction targets. The award is to be paid in cash, equivalent to 66% of salary.

* Sir Ian Prosser's award was pro-rated to reflect his actual service during the performance period following his retirement from the role of executive Chairman on 5 July 2003.

REMUNERATION REPORT

The awards made in respect of the Performance Restricted Share Plan cycles ending on 31 December 2004 and 31 December 2005 and the maximum pre-tax number of ordinary shares due if performance targets are achieved in full are:

Directors	Awards held at 15.4.03 Ordinary shares	Awards granted during the period to 31.12.03. Max potential entitlement Ordinary shares		Max potential entitlement at 31.12.03 Ordinary shares	Value based on share price of 445p at award
		2003/04*	2003/05**		£000
Richard Hartman	–	111,930	167,900	279,830	1,245
Richard North	–	188,760	283,140	471,900	2,100
Stevan Porter	–	113,810	170,710	284,520	1,266
Sir Ian Prosser***	–	65,410	65,410	130,820	582
Richard Solomons	–	110,110	165,160	275,270	1,225
					6,418

* This 'transitional' award is based on performance to 31 December 2004 where the performance measure relates to the Company's total shareholder return against a group of 11 other comparator companies. The number of shares released will be graded, according to where the Company finishes in the comparator group, with 100% of the award being released for first or second position and 20% of the award being released for sixth place. Below sixth place there will be no release.

** This award is based on performance to 31 December 2005 where the performance measure relates to both the Company's total shareholder return against a group of 11 other comparator companies and growth in return on capital employed. Further details of the performance measure are set out on page 21.

*** Sir Ian Prosser's award was pro-rated to reflect his actual service during the performance period following his retirement from the role of executive Chairman on 5 July 2003.

6 DIRECTORS' OPTIONS	Ordinary shares under option							Weighted average option price (p)	Option price (p)
	Six Continents Options held at 1.10.02 or date of appointment	Equivalent value IHG Options rolled over following Separation†	Granted during the period	Lapsed during the period	Exercised during the period	Options held at 31.12.03			
Richard Hartman	213,100	364,388						398.98	
			250,684*						438.00
A						364,388		398.98	
C						250,684		438.00	
Total	213,100	364,388	250,684	–	–	615,072		414.88	
Richard North	416,400	712,017						388.66	
			410,958*						438.00
			2,193**						420.50
A						693,379		383.16	
B						18,638		593.29	
C						413,151		437.91	
Total	416,400	712,017	413,151	–	–	1,125,168		406.74	
Stevan Porter	104,200	178,176						409.36	
			254,883*						438.00
A						178,176		409.36	
C						254,883		438.00	
Total	104,200	178,176	254,883	–	–	433,059		426.22	
Sir Ian Prosser	722,075	1,234,704						430.84	
						33,343°			304.10
						1,105#			350.00
					532***	1,054#			366.00
A						1,157,461		428.87	
B						41,209		593.29	
Total	722,075	1,234,704	–	532	35,502	1,198,670		434.52	
Richard Solomons	211,858	362,261						374.92	
			239,726*						438.00
			3,769**						420.50
					3,862***	854#			351.00
A						335,487		360.90	
B						22,058		593.29	
C						243,495		437.73	
Total	211,858	362,261	243,495	3,862	854	601,040		400.55	

Notes to Directors' Options table

+ The number and the exercise prices of options over IHG PLC shares exchanged for former options over Six Continents PLC shares were calculated in accordance with a formula based on the closing Six Continents PLC and opening IHG PLC share prices, both averaged over a five-day period. All outstanding rolled over options are immediately exercisable and the latest date that any rolled over options may be exercised is October 2012.

A Where options are exercisable and the market price per share at 31 December 2003 was above the option price;

B Where the options are exercisable but the market price per share at 31 December 2003 was below the option price; and

C Where options are not yet exercisable.

* Share options under the IHG Executive Share Option Plan were granted on 30 May 2003 at an option price of 438p. These options are exercisable between May 2006 and May 2013, subject to the achievement of the performance condition.

** Share options under the IHG Sharesave Plan were granted on 19 December 2003 at an option price of 420.5p. These options are exercisable between March 2007 and March 2009.

*** Represents the entitlement to IHG PLC shares which lapsed on 11 October 2003 under the former Six Continents Sharesave Schemes, due to early termination of individual sharesave contracts, as a consequence of the Separation.

° Represents rolled over options under the Six Continents 1985 Executive Share Option Scheme which would otherwise have lapsed on 11 October 2003, as a consequence of the Separation.

Represents rolled over options under the Six Continents Sharesave Schemes which would otherwise have lapsed on 11 October 2003 as a consequence of the Separation.

Option prices range from 295.33p to 593.29p per IHG PLC share. The closing market value share price on 31 December 2003 was 529p and the range during the period from listing on 15 April 2003 to 31 December 2003 was 339p to 556.25p per share.

The gain on exercise by directors in aggregate was £69,491 in the period ended 31 December 2003 (no gains in the year ended 30 September 2002).

7 DIRECTORS' SHAREHOLDINGS

	31 December 2003 InterContinental Hotels Group PLC Ordinary shares of £1	1 October 2002* Six Continents PLC Ordinary shares of 28p**
Executive directors		
Richard Hartman	30,345	35,808
Richard North	171,470	80,649
Stevan Porter	56,754	19,348
Richard Solomons	17,956	20,182
Non-executive directors		
Ralph Kugler	1,000	–
Robert C Larson***	9,805	11,571
Sir Ian Prosser	270,060	276,238
David Prosser	5,000	–
Sir Howard Stringer	8,474	–
David Webster****	824	793

* Or date of appointment, if later.

** These share interests were in Six Continents PLC prior to the Separation in April 2003. For every 59 Six Continents PLC shares held on 11 April 2003, shareholders received 50 IHG PLC and 50 Mitchells & Butlers plc shares plus 81p in cash per Six Continents PLC share.

*** Held in the form of American Depositary Receipts.

**** David Webster has indicated that he intends to purchase a further 5,000 shares in the Company at the earliest practicable opportunity.

The above shareholdings are all beneficial interests and include shares held by directors' spouses and other connected persons, shares held on behalf of executive directors by the Trustees of the Six Continents Employee Profit Share Scheme and of the Company's ESOP. None of the directors has a beneficial interest in the shares of any subsidiary.

At 31 December 2003, the executive directors, as potential beneficiaries under the Company's ESOP, were each technically deemed to be interested in 2,222,519 unallocated IHG PLC shares held by the Trustees of the ESOP. In the period from 31 December 2003 to 10 March 2004 a further 65,018 shares were released from the ESOP, reducing the number of shares in which the executive directors hold a residual interest to 2,157,501 in total.

The Company's Register of Directors' Interests, which is open to inspection at the Registered Office, contains full details of directors' shareholdings and share options.

By order of the Board

Richard Winter

Company Secretary

10 March 2004

FINANCIAL STATEMENTS

GROUP PROFIT AND LOSS ACCOUNT

	note	2003 15 months			2002 12 months restated*		
		Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
FOR THE 15 MONTHS ENDED 31 DECEMBER 2003							
Turnover	2	3,483	–	3,483	3,615	–	3,615
analysed as:							
Continuing operations		2,690	–	2,690	2,134	–	2,134
Discontinued operations		793	–	793	1,481	–	1,481
Costs and overheads, less other income	3	(3,000)	(51)	(3,051)	(2,997)	(77)	(3,074)
Operating profit	2	483	(51)	432	618	(77)	541
analysed as:							
Continuing operations		346	(51)	295	329	(77)	252
Discontinued operations		137	–	137	289	–	289
Non-operating exceptional items	7	–	(213)	(213)	–	53	53
analysed as:							
Continuing operations							
Cost of fundamental reorganisation		–	(67)	(67)	–	–	–
Separation costs		–	(51)	(51)	–	(4)	(4)
Profit on disposal of fixed assets		–	4	4	–	2	2
Provision against fixed asset investments		–	(56)	(56)	–	–	–
Discontinued operations							
Separation costs		–	(41)	(41)	–	–	–
Loss on disposal of fixed assets		–	(2)	(2)	–	(2)	(2)
Profit on disposal of Bass Brewers		–	–	–	–	57	57
Profit on ordinary activities before interest	2	483	(264)	219	618	(24)	594
Interest receivable		104	–	104	116	–	116
Interest payable and similar charges	8	(151)	–	(151)	(176)	–	(176)
Premium on early settlement of debt	7	–	(136)	(136)	–	–	–
Profit on ordinary activities before taxation		436	(400)	36	558	(24)	534
Tax on profit on ordinary activities	9	(47)	64	17	(157)	105	(52)
Profit on ordinary activities after taxation		389	(336)	53	401	81	482
Minority equity interests		(34)	–	(34)	(25)	–	(25)
Earnings available for shareholders		355	(336)	19	376	81	457
Dividends on equity shares	10	(156)	–	(156)	(305)	–	(305)
Retained profit/(loss) for the period	30	199	(336)	(137)	71	81	152
Earnings per ordinary share:	11						
Basic		–	–	2.6p	–	–	62.5p
Diluted		–	–	2.6p	–	–	62.3p
Adjusted		48.4p	–	–	51.4p**	–	–

* Restated exceptional items for comparability with 2003 disclosures.

** Restated to exclude all exceptional items for comparability with 2003 disclosures.

No profit and loss account is presented for InterContinental Hotels Group PLC as permitted by Section 230 of the Companies Act 1985.

Notes on pages 32 to 55 form an integral part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GROUP GAINS AND LOSSES

FOR THE 15 MONTHS ENDED 31 DECEMBER 2003	2003 15 months £m	2002 12 months £m
Earnings available for shareholders	19	457
Reversal of previous revaluation gains due to impairment	(22)	(36)
Exchange differences*		
Goodwill eliminated (see note 32)	(139)	(98)
Other assets and liabilities	79	62
Other recognised gains and losses	(82)	(72)
Total recognised gains and losses for the period	(63)	385

NOTE OF HISTORICAL COST GROUP PROFITS AND LOSSES

FOR THE 15 MONTHS ENDED 31 DECEMBER 2003	2003 15 months £m	2002 12 months £m
Reported profit on ordinary activities before taxation	36	534
Realisation of revaluation gains of previous periods	16	3
Adjustment for previously recognised revaluation losses	–	(37)
Historical cost profit on ordinary activities before taxation	52	500
Historical cost (loss)/profit retained after taxation, minority equity interests and dividends	(121)	118

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

FOR THE 15 MONTHS ENDED 31 DECEMBER 2003	2003 15 months £m	2002 12 months restated** £m
Earnings available for shareholders	19	457
Dividends	(156)	(305)
	(137)	152
Other recognised gains and losses	(82)	(72)
Issue of Six Continents PLC ordinary shares	–	3
Issue of InterContinental Hotels Group PLC ordinary shares	18	–
Net assets of MAB eliminated on separation	(2,777)	–
MAB goodwill eliminated on separation	50	–
Minority interest on transfer of pension prepayment	(7)	–
Movement in shares in ESOP trusts	15	–
Movement in goodwill – exchange differences*	139	98
Net movement in shareholders' funds	(2,781)	181
Opening shareholders' funds as previously reported	5,366	5,185
Prior year adjustment on adoption of UITF 38	(31)	(31)
Opening shareholders' funds as restated	5,335	5,154
Closing shareholders' funds	2,554	5,335

* Foreign currency denominated net assets, including goodwill purchased prior to 30 September 1998 and eliminated against Group reserves, and related foreign currency borrowings and currency swaps, are translated at each balance sheet date giving rise to exchange differences which are taken to Group reserves as recognised gains and losses during the period.

** Restated on the adoption of UITF 38 (see page 32).

Notes on pages 32 to 55 form an integral part of these financial statements.

GROUP CASH FLOW STATEMENT

FOR THE 15 MONTHS ENDED 31 DECEMBER 2003	note	2003		2002	
		15 months		12 months	
		£m	£m	£m	£m
Operating activities	12		795		720
Interest paid		(141)		(186)	
Costs associated with new facilities		(20)		–	
Premium on early settlement of debt		(136)		–	
Dividends paid to minority shareholders		(22)		(13)	
Interest received		111		124	
Returns on investments and servicing of finance			(208)		(75)
UK corporation tax received/(paid)		25		(96)	
Overseas corporate tax paid		(21)		(27)	
Taxation			4		(123)
Paid: Intangible fixed assets		(10)		–	
Tangible fixed assets		(475)		(648)	
Fixed asset investments		(37)		(14)	
Received: Tangible fixed assets		265		134	
Fixed asset investments		9		15	
Capital expenditure and financial investment	14		(248)		(513)
Acquisitions		–		(24)	
Disposals		–		9	
Separation costs		(66)		–	
Acquisitions and disposals			(66)		(15)
Equity dividends			(299)		(299)
Net cash flow			(22)		(305)
Management of liquid resources	16		(129)		232
Financing	16		206		63
Movement in cash and overdrafts			55		(10)

Notes on pages 32 to 55 form an integral part of these financial statements.

BALANCE SHEETS

31 DECEMBER 2003	note	Group		Company
		31 Dec 2003	30 Sept 2002 restated*	31 Dec 2003
		£m	£m	£m
Fixed assets				
Intangible assets	18	158	173	–
Tangible assets	19	3,951	7,641	–
Investments	20	172	218	1,161
		4,281	8,032	1,161
Current assets				
Stocks	21	44	91	–
Debtors	22	523	629	367
analysed as:				
Amounts falling due within one year		447	538	367
Amounts falling due after one year		76	91	–
Investments		377	218	–
Cash at bank and in hand		55	84	3
		999	1,022	370
Creditors: amounts falling due within one year	23	(1,085)	(2,273)	(75)
Net current (liabilities)/assets		(86)	(1,251)	295
Total assets less current liabilities		4,195	6,781	1,456
Creditors: amounts falling due after one year	24	(1,085)	(731)	(420)
Provisions for liabilities and charges		(393)	(566)	–
analysed as:				
Deferred taxation	25	(314)	(495)	–
Other provisions	26	(79)	(71)	–
Minority equity interests		(163)	(149)	–
Net assets	17	2,554	5,335	1,036
Capital and reserves				
Equity share capital	29	739	734	739
Share premium account	30	14	–	14
Revaluation reserve	30	258	1,020	–
Merger reserve	30	1,164	1,164	–
Other reserve	30	(11)	(31)	(11)
Profit and loss account	30	390	2,448	294
Equity shareholders' funds		2,554	5,335	1,036

* Restated on the adoption of UITF 38 and the reclassification of pension provisions (see page 32).

Signed on behalf of the Board

Richard North
10 March 2004

Notes on pages 32 to 55 form an integral part of these financial statements.

ACCOUNTING POLICIES

BASIS OF PREPARATION

Separation transaction On 15 April 2003, following shareholder and regulatory approval, Six Continents PLC separated into two new listed groups, InterContinental Hotels Group PLC (IHG) comprising the Hotels and Soft Drinks businesses and Mitchells & Butlers plc (MAB) comprising the Retail and Standard Commercial Property Developments (SCPD) businesses. The mechanics of the Separation are detailed below.

The legal structure of the transaction was such that Mitchells & Butlers plc acquired 100% of the issued share capital of Six Continents PLC following implementation of a Court approved Scheme of Arrangement under Section 425 of the Companies Act 1985. Shareholders of Six Continents PLC were allotted one Mitchells & Butlers plc share and an entitlement to a cash payment of 81p per share for each Six Continents PLC share held. This resulted in the issue of 866,665,032 Mitchells & Butlers plc ordinary shares of £4.20 each plus an undertaking to pay £702m in cash.

On 12 April 2003, Six Continents PLC transferred the Retail and SCPD businesses to Mitchells & Butlers plc for £1,744m and also paid a dividend to Mitchells & Butlers plc of the same amount.

On 13 April 2003, the ordinary share capital of Mitchells & Butlers plc was sub-divided and consolidated on a 50 to 59 basis which resulted in a reduction of the number of ordinary shares in issue to 734,461,900 with each share having a nominal value of £4.956.

On 15 April 2003, Mitchells & Butlers plc investment in Six Continents PLC was revalued to its market value. On the same day, the Court approved a reduction in the capital of Mitchells & Butlers plc. An amount equivalent to the market value of Six Continents PLC was returned to shareholders by the transfer of Six Continents PLC to InterContinental Hotels Group PLC and the issue by InterContinental Hotels Group PLC of ordinary shares to the shareholders.

The Company issued 734,461,900 ordinary £1 shares, which were recorded at nominal value. In accordance with Sections 131 and 133 of the Companies Act 1985, no premium was recognised on the shares issued. On consolidation, the difference between the nominal value of the Company's shares issued and the amount of the share capital, share premium and capital redemption reserve of £1,164m at the date of Separation has been credited to the merger reserve.

Merger accounting The consolidated financial statements have been prepared in accordance with the principles of merger accounting as applicable to group reorganisations as set out in Financial Reporting Standard (FRS) 6 'Acquisitions and Mergers' as if the Group had been in existence throughout the periods presented. The financial statements have been

prepared under merger accounting principles in order to present a true and fair view of the Group's results and financial position, which has required the Group to utilise the overriding requirement of Section 227(6) of the Companies Act 1985.

The true and fair override requirement has been utilised as the Separation transaction has been accounted for using merger accounting principles as applicable to group reorganisations, although it does not satisfy all the conditions required under Schedule 4A of the Companies Act 1985 and FRS 6. Mitchells & Butlers plc acquired Six Continents PLC for consideration that included a non-share element equivalent to more than 10% of the nominal value of the share element of the consideration. Schedule 4A and FRS 6 require such transfers to be accounted for using acquisition accounting principles which would have resulted in the restatement at fair value of the assets and liabilities acquired, the recognition of goodwill and the consolidation of post acquisition results only. In the opinion of the directors, as the rights of shareholders were not affected by these internal company transfers, the financial statements would fail to give a true and fair view of the Group's results and financial position if acquisition accounting had been used. The effects of this departure cannot reasonably be quantified.

The consolidated financial statements are therefore presented as if the Company had been the parent company of the Group throughout the periods presented. The results of Mitchells & Butlers plc have been included in discontinued operations for all years up until the date of Separation.

BASIS OF ACCOUNTING

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain tangible fixed assets. They have been drawn up to comply with applicable accounting standards, including Urgent Issues Task Force (UITF) Abstract 38 'Accounting for ESOP Trusts'.

Pension provisions previously included in debtors and creditors: amounts falling due after one year have been reclassified within other provisions for liabilities and charges. Prior year comparatives have been restated. There has been no overall impact on the Group's net assets or profit and loss account.

NEW ACCOUNTING POLICIES

UITF 38 'Accounting for ESOP Trusts' was adopted for the first time this period. UITF 38 requires that ESOP shares should be deducted from shareholders' funds rather than being shown as an asset. This change in accounting policy has been accounted for as a prior year adjustment and previously reported figures have been restated accordingly. The effect has been to decrease the Group's net assets by £31m in 2002 with no impact on the profit and loss account.

BASIS OF CONSOLIDATION

The Group financial statements comprise the financial statements of the parent company and its subsidiary undertakings. The results of those businesses acquired or disposed of during the period are consolidated for the period during which they were under the Group's dominant influence.

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions, adjusted for the effects of any hedging arrangements. Assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange ruling at the balance sheet date.

The results of overseas operations are translated into sterling at weighted average rates of exchange for the period. Exchange differences arising from the retranslation of opening net assets (including any goodwill previously eliminated against reserves) denominated in foreign currencies and foreign currency borrowings and currency swap agreements used to hedge those assets are taken directly to reserves. All other exchange differences are taken to the profit and loss account.

TREASURY INSTRUMENTS

Net interest arising on interest rate agreements is taken to the profit and loss account.

Premiums payable on interest rate agreements are charged to the profit and loss account over the term of the relevant agreements.

Currency swap agreements are retranslated at exchange rates ruling at the balance sheet date with the net amount being included in either current asset investments or borrowings. Interest payable or receivable arising from currency swap agreements is taken to the profit and loss account on a gross basis over the term of the relevant agreements.

Gains or losses arising on forward exchange contracts are taken to the profit and loss account in line with the transactions they are hedging.

FIXED ASSETS AND DEPRECIATION

i Goodwill Any excess of purchase consideration for an acquired business over the fair value attributed to its separately identifiable assets and liabilities represents goodwill. Goodwill is capitalised as an intangible asset. Goodwill arising on acquisitions prior to 30 September 1998 was eliminated against reserves. To the extent that goodwill denominated in foreign currencies continues to have value, it is translated into sterling at each balance sheet date and any movements are accounted for as set out under 'foreign currencies' above. On disposal of a business, any goodwill relating to the business and previously eliminated against reserves, is taken into account in determining the profit or loss on disposal.

ii Other intangible assets On acquisition of a business, no value is attributed to other intangible assets which cannot be separately identified and reliably measured. No value is attributed to internally generated intangible assets.

iii Tangible assets Freehold and leasehold land and buildings are stated at cost, or valuation, less depreciation. All other fixed assets are stated at cost less depreciation. Repairs and maintenance costs are expensed as incurred.

When implementing FRS 15 'Tangible Fixed Assets' in the year to 30 September 2000, the Group did not adopt a policy of revaluing properties. The transitional rules of FRS 15 were applied so that the carrying values of properties include an element resulting from previous valuations.

iv Revaluation Surpluses or deficits arising from previous professional valuations of properties, realised on the disposal of an asset, are transferred from the revaluation reserve to the profit and loss account reserve.

v Impairment Any impairment arising on an income-generating unit, other than an impairment which represents a consumption of economic benefits, is eliminated against any specific revaluation reserve relating to the impaired assets in that income-generating unit with any excess being charged to the profit and loss account.

vi Depreciation and amortisation Goodwill and other intangible assets are amortised over their estimated useful lives, generally 20 years.

Freehold land is not depreciated. All other tangible fixed assets are depreciated to a residual value over their estimated useful lives, namely:

Freehold buildings	50 years
Leasehold buildings	lesser of unexpired term of lease and 50 years
Fixtures, fittings and equipment	3-25 years
Plant and machinery	4-20 years

All depreciation and amortisation is charged on a straight line basis.

vii Investments Fixed asset investments are stated at cost less any provision for diminution in value.

DEFERRED TAXATION

Deferred tax assets and liabilities are recognised, subject to certain exceptions, in respect of all material timing differences between the recognition of gains and losses in the financial statements and for tax purposes.

ACCOUNTING POLICIES

Those timing differences recognised include accelerated capital allowances, unrelieved tax losses and short-term timing differences. Timing differences not recognised include those relating to the revaluation of fixed assets in the absence of a commitment to sell the assets, the gain on sale of assets rolled into replacement assets and the distribution of profits from overseas subsidiaries in the absence of any commitment by the subsidiary to make the distribution.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

LEASES

Operating lease rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

PENSIONS

The Group continues to account for pensions in accordance with SSAP 24 'Accounting for pension costs'. The regular cost of providing pensions to current employees is charged to the profit and loss account over the average expected service life of those employees. Variations in regular pension cost are amortised over the average expected service life of current employees on a straight line basis.

Accumulated differences between the amount charged to the profit and loss account and the payments made to the pension plans are treated as either prepayments or other provisions for liabilities and charges in the balance sheet.

The additional disclosures required by the transitional arrangements of FRS 17 'Retirement Benefits' are given in note 5 to the financial statements.

SELF INSURANCE

The Group is self-insured for various levels of general liability, workers' compensation and employee medical and dental insurance coverage. Insurance liabilities include projected settlements for known and incurred, but not reported claims. Projected settlements are estimated based on historical trends and actuarial data.

STOCKS

Stocks are stated at the lower of cost and net realisable value.

TRADE DEBTORS

Trade debtors are recognised and carried at original amount earned less an allowance for any doubtful accounts. An allowance for doubtful accounts is made when collection of the full amount is no longer probable.

REVENUE RECOGNITION

Revenue is derived from the following sources: owned and leased properties; management fees; franchise fees; sale of soft drinks and other revenues which are ancillary to the Group's operations. Generally, revenue represents sales (excluding VAT and similar taxes) of goods and services, net of discounts, provided in the normal course of business and is recognised when services have been rendered. The following is a description of the composition of revenues of the Group.

Owned and leased – primarily derived from hotel operations, including the rental of rooms and food and beverage sales from a worldwide network of owned and leased hotels operated primarily under the Group's brand names. Revenue is recognised when rooms are occupied and food and beverage is sold.

Management fees – earned from hotels managed by the Group, usually under long-term contracts with the hotel owner. Management fees include a base fee, which is generally a percentage of hotel revenue, and an incentive fee, which is generally based on the hotel's profitability. Revenue is recognised when earned.

Franchise fees – received in connection with the franchise of the Group's brand names, usually under long-term contracts with the hotel owner. The Group charges franchise royalty fees as a percentage of room revenue. Revenue is recognised when earned.

Soft Drinks – sales (excluding VAT and similar taxes) of goods and services, net of discounts, provided in the normal course of business.

LOYALTY PROGRAMME

The hotel loyalty programme, Priority Club Rewards, enables members to earn points during each stay at an InterContinental Hotels Group hotel and redeem the points at a later date for free accommodation or other benefits. The future redemption liability is included in creditors less than, and greater than, one year and is estimated using actuarial methods to give eventual redemption rates and points values. The cost to operate the programme is funded through hotel assessments.

USE OF ESTIMATES

The preparation of financial statements requires management 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 period. Actual results could differ from those estimates.

GLOSSARY

Additional information concerning terms used in these financial statements can be found in the glossary on page 64.

NOTES TO THE FINANCIAL STATEMENTS

1 EXCHANGE RATES

The results of overseas operations have been translated into sterling at weighted average rates of exchange for the period. In the case of the US dollar, the translation rate is £1 = \$1.62 (2002 £1 = \$1.48). In the case of the euro, the translation rate is £1 = €1.47 (2002 £1 = €1.60).

Foreign currency denominated assets and liabilities have been translated into sterling at the rates of exchange on the last day of the period. In the case of the US dollar, the translation rate is £1 = \$1.78 (2002 £1 = \$1.56). In the case of the euro, the translation rate is £1 = €1.41 (2002 £1 = €1.59).

2 TURNOVER AND PROFIT

During the year, IHG undertook a fundamental review of the Hotels organisation. Following this review, management in the regions now concentrate on the key revenue and profit drivers of the regional businesses, whilst key global functions have been centralised to maximise the benefits of our scale and drive process efficiencies. As a result of these changes, the segmental analysis presented below has been restated to reflect the new organisational structures.

InterContinental Hotels Group PLC**									
	Americas £m	EMEA £m	Asia Pacific £m	Corporate £m	Total Hotels £m	Soft Drinks £m	Total £m	Dis- continued** £m	Total Group £m
15 months ended 31 December 2003*									
Turnover	661	1,010	148	51	1,870	820	2,690	793	3,483
Operating profit before exceptional items	195	114	22	(80)	251	95	346	137	483
Operating exceptional item	(9)	(41)	(1)	–	(51)	–	(51)	–	(51)
Operating profit after operating exceptional item	186	73	21	(80)	200	95	295	137	432
Non-operating exceptional items:									
Cost of fundamental reorganisation	(11)	(17)	(2)	(37)	(67)	–	(67)	–	(67)
Separation costs	–	–	–	(51)	(51)	–	(51)	(41)	(92)
Profit/(loss) on disposal of fixed assets	10	(6)	–	–	4	–	4	(2)	2
Provision against fixed asset investments	(9)	–	–	(47)	(56)	–	(56)	–	(56)
Profit on ordinary activities before interest	176	50	19	(215)	30	95	125	94	219
12 months ended 30 September 2002*									
Turnover	570	794	128	40	1,532	602	2,134	1,481	3,615
Operating profit before exceptional items	173	125	23	(55)	266	63	329	289	618
Operating exceptional item	(39)	(24)	(14)	–	(77)	–	(77)	–	(77)
Operating profit after operating exceptional item	134	101	9	(55)	189	63	252	289	541
Non-operating exceptional items:									
Separation costs	–	–	–	(4)	(4)	–	(4)	–	(4)
(Loss)/profit on disposal of fixed assets	(7)	9	–	–	2	–	2	(2)	–
Profit on disposal of operations	–	–	–	–	–	–	–	57	57
Profit on ordinary activities before interest	127	110	9	(59)	187	63	250	344	594

* Other than for Soft Drinks which reflects the 64 weeks ended 20 December (2002 52 weeks ended 28 September) and Mitchells & Butlers plc which reflects the 28 weeks ended 12 April (2002 52 weeks ended 28 September).

** InterContinental Hotels Group PLC relates to continuing operations. Discontinued operations relate to Mitchells & Butlers plc and in 2002 also included a profit on disposal of Bass Brewers of £57m.

2 TURNOVER AND PROFIT (CONTINUED)

	Turnover		Profit on ordinary activities before interest £m
	By origin £m	By destination £m	
15 months ended 31 December 2003*			
United Kingdom	2,131	2,124	117
Rest of Europe, the Middle East and Africa	506	513	(7)
United States of America	571	571	63
Rest of Americas	127	127	28
Asia Pacific	148	148	18
	3,483	3,483	219
12 months ended 30 September 2002*			
United Kingdom	2,491	2,485	436
Rest of Europe, the Middle East and Africa	411	416	57
United States of America	476	476	78
Rest of Americas	108	108	16
Asia Pacific	129	130	7
	3,615	3,615	594

* Other than for Soft Drinks which reflects the 64 weeks ended 20 December (2002 52 weeks ended 28 September) and Mitchells & Butlers plc which reflects the 28 weeks ended 12 April (2002 52 weeks ended 28 September).

	2003 15 months			2002 12 months		
	Continuing operations £m	Discontinued operations* £m	Total £m	Continuing operations £m	Discontinued operations* £m	Total £m
3 COSTS AND OVERHEADS, LESS OTHER INCOME						
Raw materials and consumables	484	204	688	360	377	737
Changes in stocks of finished goods and work in progress	(1)	2	1	3	(5)	(2)
Staff costs (see note 4)	815	198	1,013	659	378	1,037
Depreciation of tangible fixed assets	236	54	290	175	86	261
Impairment of tangible fixed assets	51	–	51	77	–	77
Amortisation of goodwill	13	–	13	9	1	10
Hire of plant and machinery	18	17	35	19	30	49
Property rentals	65	24	89	58	42	100
Income from fixed asset investments	(3)	–	(3)	(8)	–	(8)
Other external charges	717	157	874	530	283	813
	2,395	656	3,051	1,882	1,192	3,074
Operating exceptional items included above:						
Impairment of tangible fixed assets	51	–	51	77	–	77

* Relates to Mitchells & Butlers plc.

	2003 15 months £m	2002 12 months £m
Auditors' remuneration paid to Ernst & Young LLP		
Audit fees	2.8	1.9
Audit related fees	7.2	3.2
Tax fees	1.2	1.2
Other fees	–	0.4
	11.2	6.7

Audit related fees include £6.3m (2002 £1.7m) in relation to the Separation and bid defence. These costs have been charged to exceptional items (see note 7). Non-audit fees payable for UK services were £6.6m (2002 £4.1m).

The Audit Committee has introduced a process to ensure that any non-audit services do not compromise the independence and objectivity of the external auditor, and that relevant UK and US professional and regulatory requirements are met. A number of criteria are applied when deciding whether pre-approval for such services should be given. These include the nature of the service, the level of fees, and the practicality of appointing an alternative provider, having regard to the skills and experience required to supply the service effectively. Cumulative fees for audit and non-audit services are presented to the Audit Committee on a quarterly basis for review. The Audit Committee is responsible for monitoring adherence to the pre-approval policy.

	2003 15 months £m	2002 12 months £m
4 STAFF		
Costs:		
Wages and salaries	884	942
Social security costs	96	84
Pensions (see note 5)	33	11
	1,013	1,037
Average number of employees, including part-time employees	2003 15 months	2002 12 months
Hotels	27,111	28,385
Soft Drinks	2,698	2,637
InterContinental Hotels Group PLC*	29,809	31,022
Discontinued operations*	15,014	38,747
	44,823	69,769

* InterContinental Hotels Group PLC relates to continuing operations. Discontinued operations relate to Mitchells & Butlers plc.

	2003 15 months £m	2002 12 months £m
5 PENSIONS		
Regular cost	33	35
Variations from regular cost	(7)	(28)
Notional interest on prepayment	(4)	(3)
Pension cost in respect of the principal plans	22	4
Other plans	11	7
	33	11

Retirement and death benefits are provided for eligible Group employees in the United Kingdom principally by the InterContinental Hotels UK Pension Plan which covers approximately 2,000 employees and the Britvic Pension Plan which covers approximately 2,300 employees. The plans are predominantly defined benefit schemes for current members. For new entrants, the plans will provide defined contribution benefits. The assets of the plans are held in self-administered trust funds separate from the Group's assets. The Group also maintains a US-based InterContinental Hotels Pension Plan. This plan is now closed to new members and pensionable service no longer accrues for current employee members. In addition, the Group operates a number of minor pension schemes outside the United Kingdom, the most significant of which is a defined contribution scheme in the United States; there is no material difference between the pension costs of, and contributions to, these schemes.

On 1 April 2003, two new pension schemes were created for InterContinental Hotels Group PLC in the UK when Mitchells & Butlers Retail Limited became the sponsoring employer for the Six Continents Pension Plan and the Six Continents Executive Pension Plan. Approximately 30% of the assets and liabilities of these plans was transferred to the new InterContinental Hotels UK Pension Plan and the Britvic Pension Plan, which were established with effect from 1 April 2003.

The Group continues to account for its defined benefit obligations in accordance with SSAP 24. The pension costs related to the two UK principal plans are assessed in accordance with the advice of independent qualified actuaries using the projected unit method. They reflect the 31 March 2002 actuarial valuations of the Six Continents PLC pension plans. The significant assumptions in these valuations were that wages and salaries increase on average by 4% per annum, the long-term return on assets is 6.3% per annum, and pensions increase by 2.5% per annum. The average expected remaining service life of current employees is 13 years.

At 31 March 2002, the market value of the combined assets of the Six Continents PLC pension plans was £1,187m and the value of the assets was sufficient to cover 100% of the benefits that had accrued to members after allowing for expected increases in earnings.

In the period to 31 December 2003, the Group made regular contributions to the two UK principal plans of £26m and additional contributions of £13m. The agreed employer contribution rates to the defined benefit arrangements for the year to 31 December 2004 are 10.8% for the staff section of the InterContinental Hotels UK Pension Plan, 25.7% for the executive section, 11.3% for the staff section of the Britvic Pension Plan and 30.5% for the executive section.

Certain pension benefits and post-retirement insurance obligations are provided on an unfunded basis. Where assets are not held with the specific purpose of matching the liabilities of unfunded schemes, a provision is included within other provisions for liabilities and charges. Liabilities are generally assessed annually in accordance with the advice of independent actuaries.

5 PENSIONS (CONTINUED)

FRS 17 disclosures The valuations used for FRS 17 disclosures are based on the results of the actuarial valuations at 31 March 2002 updated by independent qualified actuaries to 31 December 2003. Scheme assets are stated at market value at 31 December 2003 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. As the principal plans are now closed as defined benefit schemes, the current service cost as calculated under the projected unit method will increase as members approach retirement.

The principal assumptions used by the actuaries to determine the liabilities on an FRS 17 basis were:

	31 Dec 2003		30 Sept 2002		30 Sept 2001	
	UK %	US %	UK %	US %	UK %	US %
Wages and salaries increases	4.3	–	3.8	–	3.9	–
Pensions increases	2.8	–	2.3	–	2.4	–
Discount rate	5.4	6.3	5.5	6.8	6.1	7.5
Inflation rate	2.8	–	2.3	–	2.4	–

The combined assets of the principal schemes and expected rate of return were:

	31 Dec 2003		30 Sept 2002		30 Sept 2001	
	Long-term rate of return expected %	Value £m	Long-term rate of return expected %	Value £m	Long-term rate of return expected %	Value £m
UK Schemes						
Equities	8.0	238	8.0	507	7.5	700
Bonds	5.4	117	4.7	397	5.1	304
Other	–	–	8.0	92	7.5	94
Total market value of assets		355		996		1,098

	31 Dec 2003		30 Sept 2002		30 Sept 2001	
	Long-term rate of return expected %	Value £m	Long-term rate of return expected %	Value £m	Long-term rate of return expected %	Value £m
US Schemes						
Equities	9.2	29	11.2	27	11.5	29
Bonds	6.0	19	6.2	22	7.0	25
Total market value of assets		48		49		54

	31 Dec 2003			30 Sept 2002	30 Sept 2001
	UK £m	US £m	Total £m	Total £m	Total £m
Total market value of assets	355	48	403	1,045	1,152
Present value of scheme liabilities	(477)	(102)	(579)	(1,415)	(1,207)
Deficit in the scheme	(122)	(54)	(176)	(370)	(55)
Related deferred tax asset	37	21	58	116	21
Net pension liability	(85)	(33)	(118)	(254)	(34)

If FRS 17 had been recognised in the financial statements, the effects would have been as follows:

	2003 15 months			2002 12 months	
	UK £m	US £m	Total £m	Total £m	Total £m
Operating profit charge					
Current service cost	32	–	32	31	–
Past service cost	2	–	2	–	–
Total operating profit charge	34	–	34	31	–

5 PENSIONS (CONTINUED)

	2003 15 months			2002 12 months
	UK £m	US £m	Total £m	Total £m
Finance income				
Expected return on pension scheme assets	49	5	54	80
Interest on pension scheme liabilities	(53)	(8)	(61)	(76)
Net (expense)/return	(4)	(3)	(7)	4

	2003 15 months			2002 12 months
	UK £m	US £m	Total £m	Total £m
Actuarial loss recognised in the Statement of Total Recognised Group Gains and Losses (STRGL)				
Actual return less expected return on pension scheme assets	32	5	37	(182)
Experience gains and losses arising on scheme liabilities	(17)	(1)	(18)	(23)
Changes in assumptions underlying the present value of scheme liabilities	(111)	(10)	(121)	(126)
Actuarial loss recognised in the STRGL	(96)	(6)	(102)	(331)

	2003 15 months			2002 12 months
	UK £m	US £m	Total £m	Total £m
Movement in deficit during the period				
At start of period	(315)	(55)	(370)	(55)
Current service cost	(32)	–	(32)	(31)
Past service cost	(2)	–	(2)	–
Contributions	39	2	41	40
Finance income	(4)	(3)	(7)	4
Actuarial loss	(96)	(6)	(102)	(331)
Separation of MAB	288	–	288	–
Exchange adjustments	–	8	8	3
At end of period	(122)	(54)	(176)	(370)

	2003 15 months			2002 12 months
	UK	US	Total	Total
History of experience gains and losses				
Difference between the expected and actual return on scheme assets				
Amount (£m)	32	5	37	(182)
Percentage of scheme assets	9%	10%	9%	(17%)
Experience gains and losses on scheme liabilities				
Amount (£m)	(17)	(1)	(18)	(23)
Percentage of the present value of scheme liabilities	(4%)	(1%)	(3%)	(2%)
Total amount recognised in the STRGL				
Amount (£m)	(96)	(6)	(102)	(331)
Percentage of the present value of scheme liabilities	(20%)	(6%)	(18%)	(23%)

	31 Dec 2003		30 Sept 2002 restated*	
	Profit and assets £m	loss account reserve £m	Net assets £m	Profit and loss account reserve £m
Group net assets and reserves reconciliation				
As reported	2,554	390	5,335	2,448
Less: SSAP 24 pension prepayment (net of tax of £14m (2002 £26m))	(33)	(33)	(62)	(62)
SSAP 24 pension provision (net of tax of £16m (2002 £14m))	30	30	25	25
FRS 17 net pension liability	(118)	(118)	(254)	(254)
Restated for FRS 17	2,433	269	5,044	2,157

* Restated on the adoption of UITF 38 (see page 32).

NOTES TO THE FINANCIAL STATEMENTS

	2003 15 months £000	2002 12 months £000
6 DIRECTORS' EMOLUMENTS		
Basic salaries, fees, performance payments and benefits*	6,068	3,417
Long-term reward	1,338	–
Gains on exercise of share options	69	–

More detailed information on the emoluments, pensions, option holdings and shareholdings for each director is shown in the Remuneration Report on pages 19 to 27.

* Includes long-term reward.

	note	2003 15 months £m	2002 12 months £m
7 EXCEPTIONAL ITEMS			
Operating exceptional item			
Continuing operations – Hotels impairment charge	a	(51)	(77)
Non-operating exceptional items			
Continuing operations:			
Cost of fundamental reorganisation	b	(67)	–
Separation costs	c	(51)	(4)
Profit on disposal of fixed assets		4	2
Provision against fixed asset investments	d	(56)	–
		(170)	(2)
Discontinued operations:*			
Separation costs	c	(41)	–
Loss on disposal of fixed assets		(2)	(2)
Profit on disposal of Bass Brewers	e	–	57
		(43)	55
Total non-operating exceptional items		(213)	53
Total exceptional items before interest and taxation		(264)	(24)
Premium on early settlement of debt	f	(136)	–
Tax credit/(charge) on above items		64	(9)
Exceptional tax credit	g	–	114
Total exceptional items after interest and taxation		(336)	81

a Tangible fixed assets were written down by £73m (2002 £113m) following an impairment review of the hotel estate. £51m (2002 £77m) was charged above as an operating exceptional item and £22m (2002 £36m) reversed previous revaluation gains.

b Relates to a fundamental reorganisation of the Hotels business. The cost includes redundancy entitlements, property exit costs and other implementation costs.

c On 15 April 2003, the Separation of Six Continents PLC was completed. Costs of the Separation and bid defence total £96m. £4m of costs were incurred in the year to 30 September 2002, the remainder in the period to 31 December 2003.

d Relates to a provision for diminution in value of the Group's investment in FelCor Lodging Trust Inc. and other fixed asset investments and reflects the directors' view of the fair value of the holdings.

e Bass Brewers was disposed of in 2000. The profit in 2002 comprised £9m received in respect of the finalisation of completion account adjustments, together with the release of disposal provisions no longer required of £48m.

f Relates to the premiums paid on the repayment of the Group's £250m 10¾ per cent debenture and EMTN loans.

g Represents the release of over provisions for tax in respect of prior years.

* Discontinued operations relate to Mitchells & Butlers plc and Bass Brewers.

	2003 15 months £m	2002 12 months £m
8 INTEREST PAYABLE AND SIMILAR CHARGES		
Bank loans and overdrafts	38	21
Other	113	155
	151	176

	2003 15 months		2002 12 months	
	Before exceptional items £m	Exceptional items £m	Total £m	Total £m
9 TAX ON PROFIT ON ORDINARY ACTIVITIES				
Tax charge				
UK corporation tax at 30% (2002 30%):				
Current year	42	(38)	4	106
Prior years	(80)	–	(80)	(129)
	(38)	(38)	(76)	(23)
Foreign tax:				
Current year	72	(3)	69	65
Prior years	(20)	–	(20)	(1)
	52	(3)	49	64
Total current tax	14	(41)	(27)	41
Deferred tax:				
Origination and reversal of timing differences	53	(23)	30	17
Adjustments to estimated recoverable deferred tax assets	(11)	–	(11)	11
Prior years	(9)	–	(9)	(17)
Total deferred tax	33	(23)	10	11
Tax on profit on ordinary activities	47	(64)	(17)	52
Further analysed as tax relating to:				
Profit before exceptional items	47	–	47	157
Exceptional items (see note 7):				
Non-operating	–	(64)	(64)	9
Tax credit	–	–	–	(114)
	47	(64)	(17)	52

	2003 15 months		2002 12 months	
	Before exceptional items %	Total %	Total %	Total %
Tax reconciliation				
UK corporation tax standard rate	30.0	30.0	30.0	30.0
Permanent differences	1.7	20.7	1.3	1.3
Capital allowances in excess of depreciation	(1.0)	(12.6)	(3.7)	(3.7)
Other timing differences	(8.6)	(104.2)	(1.3)	(1.3)
Net effect of different rates of tax in overseas businesses	3.8	46.1	3.1	3.1
Adjustment to tax charge in respect of prior years	(22.9)	(276.7)	(2.9)	(2.9)
Other	0.2	2.1	–	–
Exceptional items	–	219.9	(18.8)	(18.8)
Effective current tax rate	3.2	(74.7)	7.7	7.7

Factors which may affect future tax charges The key factors which may affect future tax charges include the availability of accelerated tax depreciation, utilisation of unrecognised losses, changes in tax legislation, settlements with tax authorities and the proportion of profits subjected to higher overseas tax rates.

	2003 15 months pence per share	2002 12 months restated* pence per share	2003 15 months £m	2002 12 months £m
10 DIVIDENDS				
Dividends on ordinary shares:				
Interim Six Continents PLC	7.65	12.58	56	92
Proposed final Six Continents PLC	–	29.14	–	213
Interim InterContinental Hotels Group PLC	4.05	–	30	–
Proposed final InterContinental Hotels Group PLC	9.45	–	70	–
	21.15	41.72	156	305

The proposed final dividend is payable on the shares in issue at 26 March 2004.

* Restated based on an equivalent number of shares of InterContinental Hotels Group PLC.

11 EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share is calculated by dividing the earnings available for shareholders of £19m (2002 £457m) by 733m (2002 731m), being the weighted average number of ordinary shares, excluding investment in own shares, in issue during the period. The weighted average number of shares in issue has been based on the aggregate of the weighted average number of shares of InterContinental Hotels Group PLC and Six Continents PLC adjusted to equivalent shares of InterContinental Hotels Group PLC. The comparatives have been restated accordingly.

Diluted earnings per ordinary share is calculated by adjusting basic earnings per ordinary share to reflect the notional exercise of the weighted average number of dilutive ordinary share options outstanding during the period. The resulting weighted average number of ordinary shares is 733m (2002 734m).

Adjusted earnings per ordinary share is calculated as follows:

	2003 15 months pence per ordinary share note	2002 12 months restated* pence per ordinary share
Basic earnings	2.6	62.5
Exceptional items, less tax thereon	7, 9	45.8
Adjusted earnings	48.4	(11.1)
		51.4

Adjusted earnings per ordinary share is disclosed in order to show performance undistorted by exceptional items.

* Restated to exclude all exceptional items for comparability with 2003 disclosures.

12 CASH FLOW FROM OPERATING ACTIVITIES

	2003 15 months £m note	2002 12 months £m
Operating profit before exceptional items	483	618
Depreciation and amortisation	303	271
Earnings before interest, taxation, depreciation and amortisation and exceptional items	786	889
Other non-cash items	(2)	(4)
Increase in stocks	(1)	(1)
Increase in debtors	(10)	(92)
Increase/(decrease) in creditors	69	(37)
Provisions expended	26	(10)
Operating activities before expenditure relating to exceptional items	832	737
Cost of fundamental reorganisation	26	(37)
Operating exceptional expenditure	–	(17)
Operating activities	795	720
Net capital expenditure	14	(248)
Operating cash flow	547	207

	Cash and overdrafts			Liquid resources	Financing			Total £m
	Cash at bank and in hand £m	Overdrafts £m	Total £m	Current asset investments £m	Other borrowings due within one year £m	Other borrowings due after one year £m		
13 NET DEBT								
At 30 September 2002	84	(66)	18	218	(782)	(631)	(1,177)	
Net cash flow	(86)	64	(22)*	–	–	–	(22)	
Management of liquid resources and financing	77	–	77*	129	758	(369)	595	
Separation of MAB	(7)	–	(7)	(7)	4	–	(10)	
Exchange and other adjustments	(13)	(3)	(16)	37	12	12	45	
At 31 December 2003	55	(5)	50	377	(8)	(988)	(569)	
At 30 September 2001	67	(37)	30	366	(378)	(1,019)	(1,001)	
Net cash flow	(276)	(29)	(305)*	–	–	–	(305)	
Management of liquid resources and financing	295	–	295*	(232)	(414)	354	3	
Exchange and other adjustments	(2)	–	(2)	84	10	34	126	
At 30 September 2002	84	(66)	18	218	(782)	(631)	(1,177)	

Current asset investments include currency swaps.

* Represents a movement in cash and overdrafts of £55m inflow (2002 £10m outflow) (see Group cash flow statement).

	2003		2002	
	15 months £m	12 months £m	15 months £m	12 months £m
14 NET CAPITAL EXPENDITURE				
Hotels Americas	(42)	92		
EMEA	103	121		
Asia Pacific	37	4		
Corporate	24	39		
	122	256		
Soft Drinks	65	31		
InterContinental Hotels Group PLC*	187	287		
Discontinued operations*	61	226		
	248	513		

* InterContinental Hotels Group PLC relates to continuing operations. Discontinued operations relate to Mitchells & Butlers plc.

	2003		2002	
	15 months £m	12 months £m	15 months £m	12 months £m
15 OPERATING CASH FLOW				
Hotels	336	(15)		
Soft Drinks	59	77		
InterContinental Hotels Group PLC*	395	62		
Discontinued operations*	152	145		
	547	207		

* InterContinental Hotels Group PLC relates to continuing operations. Discontinued operations relate to Mitchells & Butlers plc.

	2003		2002	
	15 months £m	12 months £m	15 months £m	12 months £m
16 MANAGEMENT OF LIQUID RESOURCES AND FINANCING				
New borrowings*	18,672	8,260		
Other borrowings repaid*	(19,061)	(8,200)		
	(389)	60		
Debt assumed by MAB	577	–		
Ordinary shares issued by InterContinental Hotels Group PLC and Six Continents PLC respectively	18	3		
Financing	206	63		
Movement in liquid resources**	(129)	232		
	77	295		

* Includes amounts rolled over under bank loan facilities.

** Liquid resources primarily comprise short-term deposits of less than one year, short-term investments and currency swaps.

NOTES TO THE FINANCIAL STATEMENTS

		31 Dec 2003		30 Sept 2002 restated*	
		Total £m	Net operating £m	Total £m	Net operating £m
17 ASSETS					
Hotels	Americas	1,146	859	1,458	1,134
	EMEA	3,183	2,422	3,036	2,502
	Asia Pacific	481	457	467	448
		4,810	3,738	4,961	4,084
	Soft Drinks	470	300	405	246
	InterContinental Hotels Group PLC**	5,280	4,038	5,366	4,330
	Discontinued operations**	–	–	3,682	3,493
		5,280	4,038	9,048	7,823
	Non-operating assets:				
	Current asset investments		377		218
	Cash at bank and in hand		55		84
	Corporate taxation		37		1
	Non-operating liabilities:				
	Borrowings		(1,001)		(1,479)
	Proposed dividend of parent company		(70)		(213)
	Proposed dividend for minority shareholders		(16)		–
	Corporate taxation		(389)		(455)
	Deferred taxation		(314)		(495)
	Minority equity interests		(163)		(149)
		5,280	2,554	9,048	5,335
	United Kingdom	2,329	1,586	5,963	5,202
	Rest of Europe, the Middle East and Africa	1,324	1,136	1,160	1,039
	United States of America	1,020	751	1,328	1,013
	Rest of Americas	126	108	130	121
	Asia Pacific	481	457	467	448
		5,280	4,038	9,048	7,823
	Net non-operating liabilities		(1,484)		(2,488)
		5,280	2,554	9,048	5,335

* Restated on the adoption of UITF 38 (see page 32).

** InterContinental Hotels Group PLC relates to continuing operations. Discontinued operations relate to Mitchells & Butlers plc.

18 INTANGIBLE FIXED ASSETS		Goodwill £m
Cost:		
	At 30 September 2002	197
	Acquisitions	10
	Separation of MAB	(15)
	At 31 December 2003	192
Amortisation:		
	At 30 September 2002	24
	Provided	13
	Separation of MAB	(3)
	At 31 December 2003	34
Net book value:		
	At 31 December 2003	158
	At 30 September 2002	173

On 31 December 2003, the Group acquired the Candlewood Suites brand name for a consideration of £10m, which is being written off over 20 years.

19 TANGIBLE FIXED ASSETS

	InterContinental Hotels Group PLC*			Dis-continued* £m	Total Group £m
	Hotels £m	Soft Drinks £m	Total £m		
Cost or valuation:					
At 30 September 2002	4,362	408	4,770	3,722	8,492
Exchange and other adjustments	2	4	6	1	7
Additions	314	66	380	81	461
Disposals	(281)	(27)	(308)	(64)	(372)
Separation of MAB	–	–	–	(3,740)	(3,740)
Impairment	(22)	–	(22)	–	(22)
At 31 December 2003	4,375	451	4,826	–	4,826
Depreciation:					
At 30 September 2002	467	188	655	196	851
Exchange and other adjustments	(7)	1	(6)	–	(6)
Provided	186	50	236	54	290
On disposals	(37)	(24)	(61)	(40)	(101)
Separation of MAB	–	–	–	(210)	(210)
Impairment	51	–	51	–	51
At 31 December 2003	660	215	875	–	875
Net book value:					
At 31 December 2003	3,715	236	3,951	–	3,951
At 30 September 2002	3,895	220	4,115	3,526	7,641

* InterContinental Hotels Group PLC relates to continuing operations. Discontinued operations relate to Mitchells & Butlers plc.

Tangible fixed assets have been written down in total by £73m following an impairment review of the hotel estate. The impairment has been measured by reference to the value of income-generating units, using either the higher of value in use or estimated recoverable amount. The discount rate used for value in use calculations was 11.4%.

Properties

Properties, comprising land, buildings and certain fixtures, fittings and equipment, are included above at cost or valuation, less depreciation as required. The transitional rules of FRS 15 have been followed, permitting the carrying values of properties as at 1 October 1999 to be retained.

The most recent valuation of properties was undertaken in 1999 and covered all properties then owned by the Group other than hotels acquired or constructed in that year and leasehold properties having an unexpired term of 50 years or less. This valuation was undertaken by external Chartered Surveyors and internationally recognised valuers (Jones Lang LaSalle Hotels) in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. The basis of valuation was predominantly existing use value and had regard to trading potential.

Historical cost

The comparable amounts under the historical cost convention for properties would be:

	Group	
	31 Dec 2003 £m	30 Sept 2002 £m
Cost	2,931	4,998
Depreciation	(177)	(199)
Net book value	2,754	4,799

19 TANGIBLE FIXED ASSETS (CONTINUED)	Land and buildings £m	Fixtures, fittings and equipment £m	Plant and machinery £m	Total Group £m
Cost or valuation:				
At 30 September 2002	5,906	2,450	136	8,492
Exchange and other adjustments	11	(8)	4	7
Additions	139	291	31	461
Disposals	(221)	(146)	(5)	(372)
Separation of MAB	(2,809)	(930)	(1)	(3,740)
Impairment	(22)	–	–	(22)
At 31 December 2003	3,004	1,657	165	4,826
Depreciation:				
At 30 September 2002	147	622	82	851
Exchange and other adjustments	3	(10)	1	(6)
Provided	28	243	19	290
On disposals	(13)	(83)	(5)	(101)
Separation of MAB	(48)	(162)	–	(210)
Impairment	51	–	–	51
At 31 December 2003	168	610	97	875
Net book value:				
At 31 December 2003	2,836	1,047	68	3,951
At 30 September 2002	5,759	1,828	54	7,641
31 Dec 2003				
Land and buildings	Cost or valuation £m	Depreciation £m	Net book value £m	30 Sept 2002 £m
Freehold	2,109	(107)	2,002	4,598
Leasehold: unexpired term of more than 50 years	825	(25)	800	932
unexpired term of 50 years or less	70	(36)	34	229
	3,004	(168)	2,836	5,759
Cost or valuation of properties comprises:				
1999 valuation	1,567			
1992 valuation	17			
Cost	1,420			
	3,004			

	Group restated*	Company		Total £m
	Investments and advances £m	Shares in Group undertakings £m	Loans to Group undertakings £m	
20 FIXED ASSET INVESTMENTS				
Cost:				
At 30 September 2002	339	–	–	–
Exchange adjustments	(34)	–	–	–
Reclassification	6	–	–	–
Additions	42	741	420	1,161
Disposals and repayments	(12)	–	–	–
At 31 December 2003	341	741	420	1,161
Provision for diminution in value:				
At 30 September 2002	121	–	–	–
Exchange adjustments	(20)	–	–	–
Reclassification	3	–	–	–
Provisions made**	65	–	–	–
At 31 December 2003	169	–	–	–
Net book value:				
At 31 December 2003	172	741	420	1,161
At 30 September 2002	218	–	–	–

* Restated on the adoption of UITF 38 (see page 32).

** Relates to a provision for diminution in value of the Group's investment in FelCor Lodging Trust Inc. and other fixed asset investments.

	31 Dec 2003		30 Sept 2002 restated*	
	Cost less amount written off £m	Market value £m	Cost less amount written off £m	Market value £m
Investments and advances				
Group				
Listed investments	64	66	116	87
Unlisted investments	108		102	
	172		218	

All listed investments are listed on a recognised investment exchange.

* Restated on the adoption of UITF 38 (see page 32).

	Group	
	31 Dec 2003 £m	30 Sept 2002 £m
21 STOCKS		
Raw materials	9	8
Work in progress	–	22
Finished stocks	21	47
Consumable stores	14	14
	44	91

22 DEBTORS	Group				Company
	31 Dec 2003		30 Sept 2002		31 Dec 2003 £m
	Total £m	After one year £m	Total restated* £m	After one year £m	
Trade debtors	277	–	289	–	–
Amounts owed by Group undertakings	–	–	–	–	367
Other debtors	104	17	153	2	–
Corporate taxation	37	7	1	–	–
Pension prepayment	47	47	88	88	–
Other prepayments	58	5	98	1	–
	523	76	629	91	367

* Restated for the reclassification of pension provisions (see page 32).

23 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	Group		Company
	31 Dec 2003 £m	30 Sept 2002 £m	31 Dec 2003 £m
	Borrowings (see note 27)	13	848
Trade creditors	133	178	–
Corporate taxation	389	455	–
Other taxation and social security	46	82	–
Accrued charges	235	274	5
Proposed dividend of parent company	70	213	70
Proposed dividend for minority shareholders	16	–	–
Other creditors	183	223	–
	1,085	2,273	75

24 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR	Group		Company
	31 Dec 2003 £m	30 Sept 2002 restated* £m	31 Dec 2003 £m
	Borrowings (see note 27)	988	631
Other creditors and deferred income	97	100	–
	1,085	731	420

* Restated for the reclassification of pension provisions (see page 32).

25 DEFERRED TAXATION	Group £m
At 30 September 2002	495
Exchange and other adjustments	1
Separation of MAB	(189)
Disposals	(3)
Profit and loss account	10
At 31 December 2003	314

Analysed as tax on timing differences related to:	Group	
	31 Dec 2003 £m	30 Sept 2002 £m
Fixed assets	252	437
Deferred gains on loan notes	123	125
Losses	(37)	(67)
Pension prepayment	14	26
Other	(38)	(26)
	314	495

25 DEFERRED TAXATION (CONTINUED)

The deferred tax asset of £37m (2002 £67m) recognised in respect of losses includes £6m (2002 £30m) of capital losses available to be utilised against the realisation of capital gains which are recognised as a deferred tax liability and £31m (2002 £37m) in respect of revenue tax losses. Tax losses with a value of £317m (2002 £157m), including capital losses with a value of £112m (2002 £111m), have not been recognised as their use is uncertain or not currently anticipated.

No provision has been made for deferred tax on the sale of properties at their revalued amounts. The total amount unprovided is estimated at £215m (2002 £348m restated*).

No provision has been made for deferred tax on the sale of properties where gains have been, or are expected to be, deferred against expenditure on replacement assets for an indefinite period until the sale of the replacement assets. The total amount unprovided is estimated at £52m (2002 £166m restated*). It is not anticipated that any such tax will be payable in the foreseeable future.

* Restated following a review of the tax basis of properties, principally relating to MAB.

26 OTHER PROVISIONS FOR LIABILITIES AND CHARGES	Hotels reorganisation ^a £m	MAB reorganisation £m	Onerous contracts ^b £m	Pensions ^c £m	Other ^d £m	Total Group £m
At 30 September 2002 – restated*	–	11	12	39	9	71
Exchange and other adjustments	(3)	(6)	3	1	–	(5)
Profit and loss account	67	–	(6)	6	(1)	66
Expenditure	(37)	(2)	(4)	–	(4)	(47)
Separation of MAB	–	(3)	–	–	(3)	(6)
At 31 December 2003	27	–	5	46	1	79

* Restated for the reclassification of pension provisions (see page 32).

^a Relates to the Hotels reorganisation charged as a non-operating exceptional item and is expected to be largely utilised in the year to 31 December 2005.

^b Primarily relates to onerous fixed lease contracts acquired with the InterContinental hotels business and having expiry dates to 2008.

^c Relates to unfunded post-retirement benefit plans (see note 5).

^d Represents liabilities with varying expected utilisation dates.

27 BORROWINGS	Group 31 Dec 2003			Group 30 Sept 2002	Company 31 Dec 2003
	Within one year £m	After one year £m	Total £m		
Bank loans and overdrafts					
Secured:					
Bank loans*	3	57	60	59	–
Unsecured:					
Bank loans	5	489	494	625	–
Overdrafts	5	–	5	66	–
Total bank loans and overdrafts	13	546	559	750	–
Other borrowings					
Secured:					
2016 debenture stock 10.375%**	–	–	–	250	–
Other loan stock***	–	1	1	9	–
Unsecured:					
2003 Guaranteed Notes 6.625% (\$300m)	–	–	–	192	–
2007 Guaranteed Notes 5.75% (£250m)	–	18	18	250	–
2010 Guaranteed Notes 4.75% (€600m)	–	420	420	–	420
Other loan stock	–	3	3	28	–
Total other borrowings	–	442	442	729	420
Total borrowings	13	988	1,001	1,479	420

* Secured by way of mortgage over individual hotel properties. The terms, rates of interest and currencies of these bank loans vary.

** Secured by a first floating charge on the assets of Six Continents PLC and certain of its UK subsidiaries and by cross guarantees given by these subsidiaries.

*** Secured on the individual assets purchased by using such borrowings. The terms, rates of interest and currencies of these borrowings vary.

NOTES TO THE FINANCIAL STATEMENTS

27 BORROWINGS (CONTINUED)	Group 31 Dec 2003			Group 30 Sept 2002 £m	Company 31 Dec 2003 £m
	Bank loans and overdrafts £m	Other borrowings £m	Total £m		
Analysis by year of repayment					
Due within one year (see note 23)	13	–	13	848	–
Due: between one and two years	42	–	42	14	–
between two and five years	496	18	514	84	–
after five years	8	424	432	533	420
Due after more than one year (see note 24)	546	442	988	631	420
	559	442	1,001	1,479	420
Amounts repayable by instalments, some of which fall due after five years	22	–	22	23	–
				31 Dec 2003 £m	30 Sept 2002 £m
Facilities committed by banks					
Utilised				554	684
Unutilised				408	944
				962	1,628
Unutilised facilities expire:					
within one year				–	590
after one year but before two years				36	30
after two years				372	324
				408	944

28 FINANCIAL INSTRUMENTS

Details of the Group's policies on the use of financial instruments are given in the Operating and Financial Review on pages 9 to 11 and in the accounting policies on page 33. The following disclosures provide additional information regarding the effect of these instruments on the financial assets and liabilities of the Group, other than short-term debtors and creditors.

Interest rate risk In order to manage interest rate risk, the Group enters into interest rate swap, interest rate option and forward rate agreements. The interest rate profile of the Group's material financial assets and liabilities, after taking account of the interest rate swap agreements and currency swap agreements, was:

	31 Dec 2003						
	Net debt £m	Currency swap agreements £m	Total £m	Principal		Interest at fixed rate	
				At variable rate* £m	At fixed rate £m	Weighted average rate %	Weighted average period for which rate is fixed (years)
Current asset investments and cash at bank and in hand:							
Sterling	377	934	1,311	1,311	–	–	–
US dollar	9	–	9	9	–	–	–
Other	46	–	46	46	–	–	–
Borrowings:							
Sterling	(24)	–	(24)	(3)	(21)	5.0	4.1
US dollar	(337)	(615)	(952)	(301)	(651)	4.7	1.5
Euro	(514)	(258)	(772)	(403)	(369)	4.8	4.7
Hong Kong dollar	(84)	–	(84)	(57)	(27)	5.2	0.8
Other	(42)	(61)	(103)	(82)	(21)	4.7	0.7
	(569)	–	(569)	520	(1,089)	4.8	2.6

* Primarily based on the relevant inter-bank rate.

30 Sept 2002

28 FINANCIAL INSTRUMENTS (CONTINUED)

	Net debt £m	Currency swap agreements £m	Total £m	Principal		Interest at fixed rate		
				At variable rate*	At fixed rate	Weighted average rate %	Weighted average period for which rate is fixed (years)	
				£m	£m			
Current asset investments and cash at bank and in hand:								
Sterling	196	2,153	2,349	2,349	–	–	–	
US dollar	30	–	30	30	–	–	–	
Other	76	–	76	76	–	–	–	
Borrowings:								
Sterling	(532)	–	(532)	(327)	(205)	10.2	13.5	
US dollar	(463)	(1,490)	(1,953)	(1,195)	(758)	5.4	2.1	
Euro	(183)	(628)	(811)	(598)	(213)	4.9	1.9	
Hong Kong dollar	(215)	–	(215)	(158)	(57)	3.2	1.0	
Other	(86)	(35)	(121)	(104)	(17)	4.7	2.0	
	(1,177)	–	(1,177)	73	(1,250)	6.0	4.2	

* Primarily based on the relevant inter-bank rate.

At 31 December 2003, the Group had investments and advances totalling £172m (30 September 2002 £218m) on which no interest is receivable and which do not have a maturity date. These interests are denominated primarily in US dollars.

The Group had other creditors and deferred income, denominated primarily in US dollars, due after one year of £97m at 31 December 2003 (30 September 2002 £100m) on which no interest is payable.

At 31 December 2003, the Group had not entered into any interest rate option agreements. At 30 September 2002, the Group had entered into the following agreements:

	30 Sept 2002			
	Principal	Cap rate	Swap rate	Maturity
US dollar swaption – interest payable	US\$250m	–	3.47%	2005
US dollar cap – interest payable	US\$100m	4.00%	–	2005

Currency risk In order to manage currency risk, the Group enters into agreements for the forward purchase or sale of foreign currencies as well as currency options. Foreign currency flows in respect of imports and exports are also netted where practical. As virtually all foreign exchange gains and losses are charged to the Statement of Total Recognised Group Gains and Losses under the hedging provisions of SSAP 20, no disclosure of the remaining currency risks has been provided on the grounds of materiality.

At 31 December 2003, the Group had contracted to exchange within one year the equivalent of £49m (30 September 2002 £35m) of various currencies.

Liquidity risk A liquidity analysis of the Group's borrowings is provided in note 27, along with details of the Group's material unutilised committed borrowing facilities. The liquidity analysis of the Group's other financial liabilities is set out below:

	31 Dec 2003	30 Sept 2002 restated*
	£m	£m
Other creditors and deferred income		
Due: between one and two years	36	36
between two and five years	35	39
after five years	26	25
	97	100

* Restated for the reclassification of pension provisions (see page 32).

28 FINANCIAL INSTRUMENTS (CONTINUED)

Fair values The net book values and related fair values of the Group's financial assets and liabilities are:

	31 Dec 2003		30 Sept 2002 restated*	
	Net book value £m	Fair value £m	Net book value £m	Fair value £m
Fixed asset investments	172	174	218	189
Cash and overdrafts	50	50	18	18
Current asset investments	361	361	178	178
Currency swap agreements	16	20	40	44
Other borrowings	(996)	(1,000)	(1,413)	(1,535)
Net debt	(569)	(569)	(1,177)	(1,295)
Other financial liabilities	(97)	(97)	(100)	(100)
Interest rate swap agreements	–	(29)	–	(24)
Forward exchange contracts	–	(1)	–	(1)
	(494)	(522)	(1,059)	(1,231)

* Restated for the reclassification of pension provisions (see page 32).

The fair values of listed fixed asset investments and borrowings are based on market prices at the year end. Other assets and liabilities have been fair valued by discounting expected future cash flows to present value.

Hedges The Group's unrecognised gains and losses for the period on derivative financial instruments are:

	Gains £m	Losses £m	Total £m
Unrecognised at 30 September 2001	10	(21)	(11)
Recognised in the year	(5)	16	11
Arising in the year but not recognised	19	(40)	(21)
Unrecognised at 30 September 2002	24	(45)	(21)
Recognised in the period	(2)	31	29
Arising in the period but not recognised	(18)	(16)	(34)
Unrecognised at 31 December 2003	4	(30)	(26)
Expected to be recognised in the year ended 31 December 2004	3	(6)	(3)
Expected to be recognised thereafter	1	(24)	(23)

29 SHARE CAPITAL

	Number of shares millions	£m
Authorised		
Ordinary shares of £1 each	10,000	10,000
One preference share of £50,000 each	–	–
	10,000	10,000
Allotted, called up and fully paid		
On incorporation	–	–
Issued on 15 April 2003	734	734
Issued under option schemes	5	5
At 31 December 2003	739	739

The Company was incorporated and registered in England and Wales with registered number 4551528 on 2 October 2002 as a public limited company under the Companies Act 1985 with the name Hackplimco (No. 112) plc. On 17 January 2003, Hackplimco (No. 112) plc changed its name to InterContinental Hotels Group PLC.

On 2 October 2002, the Company had an authorised share capital of £50,000, divided into 50,000 ordinary shares of £1 each, of which two ordinary shares were allotted, called up and fully paid on incorporation.

On 6 February 2003, the authorised share capital was increased to £10,000,050,000 by the creation of 9,999,950,000 additional ordinary shares of £1 each and one redeemable preference share of £50,000. The redeemable preference share so created was allotted and treated as paid up in full on this date.

29 SHARE CAPITAL (CONTINUED)

On 15 April 2003, the Separation of Six Continents PLC was completed and the entire issued share capital of Six Continents PLC was transferred to InterContinental Hotels Group PLC at fair market value, in exchange for the issue of 734m fully paid ordinary shares of £1 each, which were admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange on that date. In accordance with the merger relief provisions of Sections 131 and 133 of the Companies Act 1985, the 734m shares are recorded only at nominal value.

On 5 June 2003, the redeemable preference share was redeemed at par value. The redeemable preference share did not carry any right to receive dividends nor to participate in the profits of the Company.

The aggregate consideration in respect of ordinary shares issued in respect of option schemes during the period was £18m (2002 £3m).

Options to subscribe for ordinary shares	millions
At 30 September 2002	25.4
Granted	0.7
Exercised	(0.1)
Foregone	(1.1)
Options rolled over into equivalent IHG shares less share options transferred to MAB	4.7
IHG share options post Separation	29.6
Granted	8.8
Exercised	(4.9)
Foregone	(4.9)
At 31 December 2003	28.6
Option exercise price per ordinary share (pence)	295.33 – 593.29
Final exercise date	18 September 2013

Options were originally granted under the Six Continents Executive Share Option Schemes and the Six Continents Employee Sharesave Scheme. On Separation, employees of the Six Continents Group had the opportunity to roll over their Six Continents PLC share options into InterContinental Hotels Group PLC share options. The number of options exchanged and the exercise prices were calculated in accordance with a formula based on the closing Six Continents PLC and opening InterContinental Hotels Group PLC share prices, both averaged over a five-day period.

The authority given to the Company at the Annual General Meeting on 9 April 2003 to purchase its own shares is still valid at 31 December 2003. A resolution to renew the authority will be put to shareholders at the Annual General Meeting on 1 June 2004.

30 RESERVES – EQUITY INTERESTS

Group	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Merger reserve £m	Other reserve £m	Profit and loss account £m	Total £m
At 30 September 2002 as previously reported in Six Continents PLC	802	1,020	853	–	–	2,448	5,123
Prior year adjustment on adoption of UITF 38	–	–	–	–	(31)	–	(31)
Separation of MAB – transfers to merger reserve	(802)	–	(853)	1,164	–	–	(491)
As restated in InterContinental Hotels Group PLC	–	1,020	–	1,164	(31)	2,448	4,601
Net assets of MAB eliminated on Separation	–	(743)	–	–	–	(2,034)	(2,777)
MAB goodwill eliminated on Separation	–	–	–	–	–	50	50
Minority interest on transfer of pension prepayment	–	–	–	–	–	(7)	(7)
Reduction of shares in ESOP trusts	–	–	–	–	13	(5)	8
Premium on allotment of ordinary shares*	14	–	–	–	–	(1)	13
Allocation of shares in ESOP trusts	–	–	–	–	7	–	7
Retained loss for the period	–	–	–	–	–	(137)	(137)
Goodwill (see note 32)	–	–	–	–	–	139	139
Revaluation surplus realised on disposals	–	(16)	–	–	–	16	–
Reversal of previous revaluation gains due to impairment	–	(22)	–	–	–	–	(22)
Exchange adjustments on:							
assets	–	19	–	–	–	(3)	16
borrowings and currency swaps	–	–	–	–	–	63	63
goodwill eliminated (see note 32)	–	–	–	–	–	(139)	(139)
At 31 December 2003	14	258	–	1,164	(11)	390	1,815

* Includes transfer of £1m from the profit and loss account reserve in respect of shares issued to the qualifying employee share ownership trust.

30 RESERVES – EQUITY INTERESTS (CONTINUED)	Share premium account £m	Other reserve £m	Profit and loss account £m	Total £m
Company				
On incorporation	–	–	–	–
Transfer of shares in ESOP trusts	–	(25)	–	(25)
Reduction of shares in ESOP trusts	–	13	(5)	8
Premium on allotment of ordinary shares	14	–	–	14
Allocation of shares in ESOP trusts	–	1	–	1
Retained earnings for the period	–	–	299	299
At 31 December 2003	14	(11)	294	297

The Company profit and loss account reserve is wholly distributable.

The other reserve comprises £10.5m in respect of 2.2m InterContinental Hotels Group PLC ordinary shares held by employee share trusts, with a market value at 31 December 2003 of £12m.

31 SEPARATION OF MAB	£m
Net assets disposed	
Intangible assets	12
Tangible assets	3,530
Stocks	47
Debtors	140
Current asset investments	7
Cash at bank and in hand	7
Creditors: amounts falling due within one year	(244)
Provisions for liabilities and charges	(195)
Debt assumed by MAB	(577)
	2,727
Goodwill previously written off to reserves	50
	2,777

32 GOODWILL ELIMINATED*	Group		Total £m
	Cost of goodwill eliminated £m	Exchange adjustments £m	
Eliminated to 30 September 2002	2,403	122	2,525
Separation of MAB	(50)	–	(50)
Exchange adjustments	–	(139)	(139)
Eliminated to 31 December 2003	2,353	(17)	2,336

* Represents goodwill purchased prior to 30 September 1998 and eliminated against Group reserves.

33 PARENT COMPANY
Profit on ordinary activities after taxation dealt with in the financial statements of the Company amounts to £399m.

US GAAP INFORMATION

DIFFERENCES BETWEEN UNITED KINGDOM AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Group's financial statements are prepared in accordance with accounting principles generally accepted in the United Kingdom (UK GAAP) which differ from those generally accepted in the United States (US GAAP). The significant differences, as they apply to the Group, are summarised below

This US GAAP information provides a reconciliation between earnings available for shareholders under UK GAAP and net income under US GAAP and between shareholders' funds under UK GAAP and shareholders' equity under US GAAP respectively.

Pension costs

The Group provides for the cost of retirement benefits based upon consistent percentages of employees' pensionable pay as recommended by independent qualified actuaries. Under US GAAP, the projected benefit obligation (pension liability) in respect of the Group's principal pension plans would be matched against the fair value of the plans' assets and would be adjusted to reflect any unrecognised obligations or assets in determining the pension cost or credit for the year.

At 31 December 2003, the accumulated benefit obligations exceeded the fair value of the plans' assets. In these circumstances, US GAAP requires the recognition of the difference as a balance sheet liability and the elimination of any amounts previously recognised as a prepaid pension cost. An equal amount, but not exceeding the amount of unrecognised past service cost, is recognised as an intangible asset with the balance reported in other comprehensive income.

In accordance with Emerging Issues Task Force (EITF) 94-17 'Accounting for Deferred Compensation Arrangements Where Amounts Earned are Held in a Rabbi Trust and Invested'. The Group has made an adjustment to debtors and creditors greater than one year for the assets and liabilities of the Trust.

Intangible assets

Under UK GAAP, prior to 1 October 1998, goodwill arising on acquisitions was written off directly to reserves. Since 1 October 1998, acquired goodwill has been capitalised and amortised over a period not exceeding 20 years. On disposal of a business, the profit or loss on disposal is determined after incorporating the attributable amount of any purchased goodwill, including any previously written off to reserves. Under US GAAP, goodwill arising on acquisitions prior to 1 July 2001 would be capitalised and amortised over its estimated useful life, not exceeding 40 years. For the purposes of US GAAP the Group adopted Financial Accounting Standard (FAS) 142 'Goodwill and Other Intangible Assets' on 1 October 2002 and from that date, goodwill which arose in the period from 1 July 2001 to 1 October 2002 would not be amortised but would be reviewed annually for impairment.

Under US GAAP, separately identified intangible assets arising on acquisitions would be capitalised and amortised over their

useful lives. Under UK GAAP, these assets are included within goodwill.

Under UK GAAP, where purchase consideration is contingent on a future event, the cost of acquisition includes a reasonable estimate of the amount expected to be payable in the future. Under US GAAP, contingent consideration is not recognised until the related contingencies are resolved.

Impairment of goodwill

Under UK GAAP, goodwill is reviewed for potential impairment where there is an indicator that impairment may have occurred. The impairment is measured by comparing the carrying value of goodwill for each income-generating unit (IGU) with the higher of net realisable value and value in use. Under US GAAP, goodwill impairment reviews are also conducted when an indicator of impairment exists, in addition to an annual goodwill impairment test required by FAS 142. The impairment is measured by comparing the carrying value of each reporting unit with its fair value. Where the carrying value, including any separately identified intangible assets, is greater than the fair value, the impairment loss is based on the excess of the carrying value of goodwill over the implied fair value of the goodwill. Where reporting units identified under US GAAP differ from IGUs identified under UK GAAP, a reconciling item may arise.

Tangible fixed assets

Prior to 1 October 1999, the Group's properties were valued from time to time by professionally qualified external valuers. Book values were adjusted to accord with the valuations, except where a director's valuation was deemed more appropriate. Under US GAAP, revaluations would not have been permitted.

Depreciation is based on the book value of assets, including revaluation where appropriate. Prior to 1 October 1999, freehold pubs and hotels were not depreciated under UK GAAP, as any charge would have been immaterial given that such properties were maintained, as a matter of policy, by a programme of repair and maintenance such that their residual values were at least equal to their book values. Following the introduction of FRS 15, which was implemented by the Group with effect from 1 October 1999, all properties are depreciated under UK GAAP. There is now no difference between UK GAAP and US GAAP with regard to depreciation policies.

Under UK GAAP, the impairment of tangible fixed assets is measured by reference to discounted cash flows. Under US GAAP, if the carrying value of assets is supported by undiscounted cash flows, there would be no impairment.

The Group recognises a profit on disposal of fixed assets provided substantially all the risks and rewards of ownership have transferred. For the purposes of US GAAP, the Group

DIFFERENCES BETWEEN UNITED KINGDOM AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (CONTINUED)

would account for sales of real estate in accordance with FAS 66 'Accounting for Sales of Real Estate'. Gains on sales of real estate are deferred if there is a continuing involvement with the property. Consequently the Group has reduced gains on sales where this criteria exists.

Staff costs

The Group charges against earnings the cost of shares acquired to settle awards under certain incentive schemes. The charge is based on an apportionment of the cost of shares over the period of the scheme. Prior to Separation the Group accounted for those plans under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion 25 'Accounting for Stock Issue to Employees' and related interpretations. Under APB 25 these awards would be accounted for as variable plans and the charge would be based on the intrinsic value of the shares using the share price at the balance sheet date. Effective from the date of Separation, the Group adopted the preferable fair value recognition provisions of FAS 123 'Accounting for Stock-Based Compensation'. The Group selected the modified prospective method of adoption described in FAS 148 'Accounting for Stock-Based Compensation – Transition and Disclosure'. Compensation cost recognised since Separation is the same as that which would have been recognised had the fair value method of FAS 123 been applied from its original effective date. In accordance with the modified prospective method of adoption, results for years prior to 2002 have not been restated.

Severance and restructuring costs

Under UK GAAP, severance costs are provided for in the financial statements if it is determined that a constructive or legal obligation has arisen from a restructuring programme where it is probable that it will result in the outflow of economic benefits and the costs involved can be estimated with reasonable accuracy. Under US GAAP, severance costs are recognised over the remaining service period to termination. Accordingly, timing differences between UK and US GAAP arise on the recognition of such costs.

Deferred taxation

The Group provides for deferred taxation in respect of timing differences, subject to certain exceptions, between the recognition of gains and losses in the financial statements and for tax purposes. Timing differences recognised, include accelerated capital allowances, unrelieved tax losses and short-term timing differences. Under US GAAP, deferred taxation would be computed on all differences between the tax bases and book values of assets and liabilities which will result in taxable or tax deductible amounts arising in future years. Deferred taxation assets under UK GAAP and US GAAP are recognised only to the extent that it is more likely than not that they will be realised.

Fixed asset investments

Fixed asset investments are stated at cost less any provision for diminution in value. Under US GAAP, these investments are recorded at market value and unrealised gains and losses are reported in other comprehensive income except for other than temporary which are recognised in the profit and loss account.

Derivative instruments and hedging

The Group enters into derivative instruments to limit its exposure to interest rate and foreign exchange risk. Under UK GAAP, these instruments are measured at cost and accounted for as hedges, whereby gains and losses are deferred until the underlying transaction occurs. Under US GAAP, all derivative instruments (including those embedded in other contracts) are recognised on the balance sheet at their fair values. Changes in fair value are recognised in net income unless specific hedge criteria are met. If a derivative qualifies for hedge accounting as defined under US GAAP, changes in fair value are recognised periodically in net income or in shareholders' equity as a component of other comprehensive income depending on whether the derivative qualifies as a fair value or cash flow hedge. Substantially all derivatives held by the Group during the year did not qualify for hedge accounting under US GAAP.

Guarantees

The Group gives guarantees in connection with obtaining long-term management contracts. Under UK GAAP, a contingent liability under such guarantees is not recognised unless it is probable that it will result in a future loss to the Group. For the purposes of US GAAP, under FASB interpretation (FIN) 45 'Guarantors Accounting and Disclosure Requirements for Guarantees, Including Direct Guarantees of Indebtedness of Others in the Year', at the inception of guarantees issued after 31 December 2002, the Group would record the fair value of the guarantee as an asset and a liability, which are amortised over the life of the contract.

Proposed dividends

Final ordinary dividends are provided for in the year in respect of which they are proposed by the Board for approval by the shareholders. Under US GAAP, dividends would not be provided for until the year in which they are declared.

Exceptional items

Certain exceptional items are shown on the face of the profit and loss account after operating profit. Under US GAAP these items would be classified as operating profit or expenses.

Discontinued operations

For the purposes of the reconciliation on page 58 the discontinued operations are the same for both UK and US GAAP.

US GAAP INFORMATION

NET (LOSS)/INCOME IN ACCORDANCE WITH US GAAP

The significant adjustments required to convert earnings available for shareholders in accordance with UK GAAP to net (loss)/income in accordance with US GAAP are:

	3 months to 31 Dec 2002	12 months to 31 Dec 2003	15 months to 31 Dec 2003	12 months to 30 Sept 2002 restated ^(a)	3 months to 31 Dec 2002 ^(b)	12 months to 31 Dec 2003 ^(b)	15 months to 31 Dec 2003 ^(b)	12 months to 30 Sept 2002 ^(b) restated ^(a)
	£m	£m	£m	£m	\$m	\$m	\$m	\$m
Earnings available for shareholders in accordance with UK GAAP	64	(45)	19	457	105	(74)	31	676
Adjustments:								
Pension costs	(9)	(14)	(23)	(21)	(15)	(23)	(38)	(31)
Amortisation of intangible fixed assets	(4)	(5)	(9)	(105)	(7)	(8)	(15)	(155)
Impairment of intangible fixed assets on adoption of FAS 142	(712)	–	(712)	–	(1,154)	–	(1,154)	–
Depreciation of tangible fixed assets	–	(4)	(4)	–	–	(7)	(7)	–
Disposal of tangible fixed assets	3	5	8	6	5	8	13	9
Impairment of tangible fixed assets	–	45	45	77	–	73	73	114
Provisions	(1)	3	2	–	(2)	5	3	–
Staff costs	–	(6)	(6)	–	–	(10)	(10)	–
Deferred revenue	–	3	3	–	–	5	5	–
Change in fair value of derivatives ^(c)	7	26	33	79	12	43	55	117
Deferred taxation:								
on above adjustments	2	4	6	(4)	3	7	10	(6)
methodology	(2)	14	12	7	(3)	23	20	10
	(716)	71	(645)	39	(1,161)	116	(1,045)	58
Minority share of above adjustments	–	3	3	3	–	5	5	4
	(716)	74	(642)	42	(1,161)	121	(1,040)	62
Net (loss)/income in accordance with US GAAP	(652)	29	(623)	499	(1,056)	47	(1,009)	738
Before cumulative effect on prior years of change in accounting principle comprising:								
Continuing operations	30	(1)	29	166	49	(2)	47	245
Discontinued operations:								
result for the period	30	30	60	162	49	49	98	240
surplus on disposal of Bass Brewers and other businesses	–	–	–	171	–	–	–	253
Impairment of intangible fixed assets on adoption of FAS 142	(712)	–	(712)	–	(1,154)	–	(1,154)	–
	(652)	29	(623)	499	(1,056)	47	(1,009)	738
Basic^(d) and diluted^(e) net (loss)/income per American Depositary Share	£	£	£	£	\$	\$	\$	\$
Before cumulative effect on prior years of change in accounting principle comprising:								
Continuing operations	0.04	–	0.04	0.23	0.07	(0.01)	0.06	0.34
Discontinued operations	0.04	0.04	0.08	0.45	0.07	0.07	0.14	0.67
Impairment of intangible fixed assets on adoption of FAS 142	(0.97)	–	(0.97)	–	(1.58)	–	(1.58)	–
	(0.89)	0.04	(0.85)	0.68	(1.44)	0.06	(1.38)	1.01

(a) Restated following a review of unrealised gains in respect of the Group's properties. This has resulted in additional goodwill of £145m (\$226m) arising on an acquisition in 2000. The impact on the income statement has been to increase the amortisation of intangible fixed assets by £4m (\$6m) and to decrease the deferred tax methodology charge by £50m (\$74m). Overall, these restatements have increased net income by £46m (\$68m).

(b) Translated at the weighted average rate of exchange for the period of £1 = \$1.62 (2002 £1 = \$1.48).

(c) Comprises net gains in the fair value of derivatives that do not qualify for hedge accounting of £28m (2002 £75m) and net gains reclassified from other comprehensive income of £5m (2002 £4m).

(d) Calculated by dividing net (loss)/income in accordance with US GAAP of £623m loss (2002 £499m income) by 733m (2002 731m) shares, being the weighted average number of ordinary shares in issue during the period. Each American Depositary Share represents one ordinary share.

(e) Calculated by adjusting basic net (loss)/income in accordance with US GAAP to reflect the notional exercise of the weighted average number of dilutive ordinary share options outstanding during the period. The resulting weighted average number of ordinary shares is 733m (2002 734m).

SHAREHOLDERS' EQUITY IN ACCORDANCE WITH US GAAP

The significant adjustments required to convert shareholders' funds in accordance with UK GAAP to shareholders' equity in accordance with US GAAP are:

	31 Dec 2003	30 Sept 2002 restated ^(a)	31 Dec 2003 ^(b)	30 Sept 2002 ^(b) restated ^(a)
	£m	£m	\$m	\$m
Shareholders' funds in accordance with UK GAAP	2,554	5,335	4,546	8,322
Adjustments:				
Intangible fixed assets:				
Cost: goodwill	837	2,269	1,490	3,540
other	843	1,194	1,500	1,863
Accumulated amortisation	(257)	(958)	(457)	(1,495)
	1,423	2,505	2,533	3,908
Intangible asset – minimum pension liability	6	24	11	37
	1,429	2,529	2,544	3,945
Tangible fixed assets:				
Cost	(68)	(956)	(121)	(1,491)
Accumulated depreciation	33	(133)	59	(208)
	(35)	(1,089)	(62)	(1,699)
Fixed asset investments:				
Investments and advances	2	(29)	4	(44)
Current assets:				
Pension prepayment	(47)	(88)	(84)	(137)
Other debtors	22	25	39	39
Derivatives	4	24	7	37
Creditors: amounts falling due within one year:				
Other creditors	(2)	–	(4)	–
Proposed dividend of parent company	70	213	125	332
Proposed dividend for minority shareholders	16	–	28	–
Derivatives	(6)	(3)	(11)	(4)
Creditors: amounts falling due after one year:				
Other creditors	(114)	(18)	(203)	(28)
Borrowings	–	4	–	6
Derivatives	(24)	(41)	(43)	(64)
Provisions for liabilities and charges:				
Provisions	25	19	45	29
Accrued pension cost	(54)	(235)	(96)	(367)
Deferred taxation: on above adjustments	(238)	(206)	(423)	(321)
methodology	(169)	(161)	(301)	(251)
	879	944	1,565	1,473
Minority share of above adjustments	(53)	(58)	(95)	(90)
	826	886	1,470	1,383
Shareholders' equity in accordance with US GAAP	3,380	6,221	6,016	9,705

^(a) Restated for UITF 38 (see page 32) which has not changed the overall shareholders' equity in accordance with US GAAP and following a review of unrealised gains in respect of the Group's properties. This has resulted in additional goodwill of £145m (\$226m) arising on an acquisition in 2000. At 30 September 2002 the impact was to increase the US GAAP adjustment for intangible fixed assets by £134m (\$209m) and reduce the deferred tax methodology adjustment by £53m (\$83m). The overall impact has increased previously reported shareholders' equity under US GAAP by £187m (\$292m).

^(b) Translated at the rate of exchange ruling at the balance sheet date of £1 = \$1.78 (2002 £1 = \$1.56).

DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the report of the independent auditors set out below, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

Following discussions with the auditors, the directors consider that in preparing the financial statements on pages 28 to 55 inclusive, the Company has used appropriate accounting policies, applied in a

consistent manner and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

REPORT OF THE INDEPENDENT AUDITORS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INTERCONTINENTAL HOTELS GROUP PLC

We have audited the Group's financial statements for the period ended 31 December 2003 which comprise the Group profit and loss account, Group statement of total recognised gains and losses, Reconciliation of movement in shareholders' funds, Group cash flow statement, Group balance sheet, Company balance sheet, and the related notes 1 to 37. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members 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 to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you, our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined

Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' Report, unaudited part of the Directors' Remuneration Report, Chairman's Statement, Operating and Financial Review, Corporate Governance Statement and Three Year Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. 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. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the profit of the Group for the period then ended; and the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP,
Registered Auditor, London.
10 March 2004

THREE YEAR REVIEW

INTERCONTINENTAL HOTELS GROUP PLC GROUP PROFIT AND LOSS ACCOUNT	Pro forma*			
	Dec 2003 12 months £m	Dec 2002 12 months £m	Sept 2002** 12 months £m	Sept 2001** 12 months £m
Hotels	1,487	1,538	1,532	1,902
Soft Drinks	674	611	602	571
Turnover	2,161	2,149	2,134	2,473
Hotels	200	239	266	429
Soft Drinks	83	68	63	57
Continuing operations before exceptional items	283	307	329	486
Operating exceptional items	–	–	(77)	(43)
Operating profit	283	307	252	443
Non-operating exceptional items:				
Continuing operations	–	–	(2)	(2)
Discontinued operations***	–	–	57	38
Profit before interest	283	307	307	479
Interest	(39)	(49)	(17)	(1)
Profit before tax	244	258	290	478
Tax	(61)	(71)	28	(141)
Profit after tax	183	187	318	337
Minority interests	(30)	(26)	(25)	(24)
Earnings	153	161	293	313
Earnings per share:				
Pro forma	20.8	21.9	–	–
Basic	–	–	40.1	42.8
Adjusted****	–	–	43.1	43.8

* See page 12.

** Represents the continuing IHG business as disclosed in InterContinental Hotels Group PLC Listing Particulars February 2003. Hotels includes Other Activities which was separately disclosed in those Listing Particulars.

*** Relates to Bass Brewers.

**** Calculated after excluding the effect of exceptional items and any relevant tax.

THREE YEAR REVIEW

INTERCONTINENTAL HOTELS GROUP PLC GROUP CASH FLOW STATEMENT	Pro forma* Dec 2003 12 months £m	Dec 2003 15 months £m	Sept 2002** 12 months £m	Sept 2001** 12 months £m
EBITDA***	481	595	510	644
Working capital movements	30	24	(144)	19
Cost of fundamental reorganisation	–	(37)	–	–
Operating exceptional expenditure	–	–	(17)	(23)
Operating activities	511	582	349	640
Net capital expenditure (see below)	(100)	(187)	(287)	(580)
Operating cash flow (see below)	411	395	62	60
Net capital expenditure				
Hotels	(45)	(122)	(256)	(552)
Soft Drinks	(55)	(65)	(31)	(28)
	(100)	(187)	(287)	(580)
Operating cash flow				
Hotels	340	336	(15)	(82)
Soft Drinks	71	59	77	99
Continuing operations	411	395	62	17
Discontinued operations****	–	–	–	43
	411	395	62	60

* See page 12.

** Represents the continuing IHG business as disclosed in InterContinental Hotels Group PLC Listing Particulars February 2003. Hotels includes Other Activities which was separately disclosed in those Listing Particulars.

*** Earnings before interest, taxation, depreciation and amortisation and exceptional items.

**** Relates to Bass Brewers.

INTERCONTINENTAL HOTELS GROUP PLC GROUP BALANCE SHEET	31 Dec 2003	Pro forma* 31 Dec 2002	30 Sept 2002** restated***	30 Sept 2001** restated***
	£m	£m	£m	£m
Fixed assets	4,281	4,510	4,495	4,575
Stocks	44	43	42	46
Debtors	523	456	545	484
Investments	377	193	216	364
Cash at bank and in hand	55	135	68	49
Amounts due from MAB	–	–	831	825
Short-term creditors	(1,085)	(1,025)	(2,054)	(1,759)
Net current (liabilities)/assets	(86)	(198)	(352)	9
Long-term creditors	(1,085)	(1,423)	(763)	(1,179)
Provisions	(393)	(336)	(334)	(419)
Minority interests	(163)	(139)	(149)	(133)
Net assets	2,554	2,414	2,897	2,853
Shareholders' funds	2,554	2,414	2,897	2,853
Comprising:				
Hotels	3,738	4,060	4,084	3,918
Soft Drinks	300	268	246	252
Net operating assets	4,038	4,328	4,330	4,170
Net debt	(569)	(1,000)	(1,191)	(1,016)
Other****	(915)	(914)	(242)	(301)
Shareholders' funds	2,554	2,414	2,897	2,853
Statistics				
Gearing*****	22.3%	41.4%	41.1%	35.6%
Return on net operating assets*****	7.0%	7.1%	7.6%	11.7%

* See page 12.

** Represents the continuing IHG business as disclosed in InterContinental Hotels Group PLC Listing Particulars February 2003. Hotels includes Other Activities which was separately disclosed in those Listing Particulars.

*** Restated on the adoption of UITF 38 (see page 32).

**** Proposed dividend, corporate taxation, deferred taxation, minority interests and balances with MAB.

***** Net debt expressed as a percentage of shareholders' funds.

***** Operating profit before exceptional items expressed as a percentage of net operating assets.

GLOSSARY

ADJUSTED	excluding the effect of exceptional items and any relevant tax.	MANAGEMENT CONTRACT	a contract to operate a hotel on behalf of the hotel owner.
AVERAGE DAILY RATE (ADR)	room revenue divided by the number of room nights sold. Also known as average room rate.	MARKET CAPITALISATION	the value attributed to a listed company by multiplying its share price by the number of shares in issue.
BASIC EARNINGS PER SHARE	earnings available for ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year.	MIDSCALE HOTEL	a hotel in the three/four star category, e.g. Holiday Inn, Holiday Inn Express.
BOND	a long-dated note, being an obligation to repay.	NET CAPITAL EXPENDITURE	cash expended on fixed assets, less cash received from selling fixed assets, excluding major acquisitions and disposals.
COMMERCIAL PAPER	a negotiable short-term unsecured promissory note, issued by a corporate or other borrower normally for a maximum of one year.	NET CASH FLOW	cash flow from all operations, including major and one-off payments and receipts.
COMPETITIVE SEGMENT	the broad market segment against which a hotel brand competes.	NET DEBT	borrowings less current asset investments and cash at bank and in hand.
COMPETITIVE SET	the specific local hotels against which a particular hotel competes.	NET OPERATING ASSETS	total assets less liabilities, excluding all assets and liabilities of a financing nature.
CONTINGENT LIABILITY	a liability that is contingent upon the occurrence of one or more uncertain future events.	NORMAL CASH FLOW	cash flow from all operations before major and one-off payments and receipts.
CONTINUING OPERATIONS	operations not classified as discontinued and including acquisitions made during the year.	OCCUPANCY RATE	rooms occupied by hotel guests, expressed as a percentage of rooms that are available.
CURRENCY SWAP	an exchange of a deposit and a borrowing, each denominated in a different currency, for an agreed period of time.	OPERATING CASH FLOW	cash flow from operations but before payments for tax and to providers of finance (through interest and dividends), and before major and one-off payments and receipts.
DEBENTURE	a long-term loan, usually secured by property.	OPERATING MARGIN	operating profit expressed as a percentage of turnover.
DISCONTINUED OPERATIONS	operations that have been sold or terminated and where the sale or termination has had a material effect on the nature and focus of the Group's operations.	PIPELINE	signed/executed agreements, including franchises and management contracts, for hotels which will enter the InterContinental Hotels system at a future date.
EBITDA	earnings before interest, taxation, depreciation and amortisation and exceptional items.	REVENUE PER AVAILABLE ROOM (RevPAR)	room revenue divided by the number of room nights that are available (can be mathematically derived from occupancy rate multiplied by average room rate).
EXCEPTIONAL ITEMS	material items deriving from ordinary activities but which are disclosed separately because of their size or incidence.	ROOM REVENUE	revenue generated from the sale of room nights.
EXTENDED-STAY HOTEL	a hotel designed for guests staying for periods of time longer than a few nights and tending to have a higher proportion of suites than normal hotels, e.g. Staybridge Suites.	ROYALTY RATE	the percentage of room revenue that a franchisee pays to the brand owner for use of the brand name.
FORWARD RATE AGREEMENT	a contract to receive or pay the difference between an agreed interest rate and the actual rate at an agreed future date, on a specified notional principal.	SUBSIDIARY UNDERTAKING	a company in which the Group holds a stake and over which it exercises dominant influence.
FRANCHISEE	operator who uses a brand under licence from the brand owner (e.g. InterContinental Hotels).	SYSTEM SIZE	number of hotels (or rooms) owned, managed or franchised by InterContinental Hotels.
FRANCHISOR	brand owner (e.g. InterContinental Hotels) who licenses brands for use by other operators.	UNDERLYING	adjusted to remove items that distort comparability between both years.
GEARING	net debt expressed as a percentage of shareholders' funds.	UPSCALE HOTEL	a four/five star full-service hotel characterised by superior service, e.g. InterContinental, Crowne Plaza.
GOODWILL	the difference between the consideration given for a business and the total of the values of the separable assets and liabilities comprising that business.	UK GAAP	accounting principles generally accepted in the United Kingdom.
GROSS OPERATING MARGIN	operating profit before fixed costs and overheads, expressed as a percentage of turnover.	US GAAP	accounting principles generally accepted in the United States.
HEDGING	the reduction of risk, normally in relation to foreign currency or interest rate movements, by making offsetting commitments.	WEIGHTED AVERAGE EXCHANGE RATE	the average of the monthly exchange rates, weighted by reference to monthly operating profit.
HOLIDEX FEES	charges to hotels under management and franchise agreements for the use of Holiday, IHG's proprietary reservation system.	WORKING CAPITAL	the sum of stocks, debtors, creditors and accruals of a trading nature, excluding financing items such as corporate taxation and proposed dividends.
INCOME-GENERATING UNIT	a portfolio of similar assets that are subject to the same economic and commercial influences.		
INTEREST RATE SWAP	an agreement to exchange fixed for floating interest rate streams (or vice versa) on a notional principal.		

SHAREHOLDER PROFILE

as at 31 December 2003

Category of holdings	Number of shareholders	Percentage of total shareholders	Ordinary shares	Percentage of issued share capital
Private individuals	84,492	91.31	52,757,470	7.14
Nominee companies	6,857	7.41	662,659,580	89.62
Limited and public limited companies	763	0.82	10,970,154	1.48
Other corporate bodies	388	0.42	3,743,620	0.51
Pension funds, insurance companies and banks	36	0.04	9,233,430	1.25
Total	92,536	100	739,364,254	100

Range of holdings	Number of shareholders	Percentage of total shareholders	Ordinary shares	Percentage of issued share capital
1 – 199	41,474	44.82	3,163,496	0.43
200 – 499	19,956	21.57	6,611,795	0.89
500 – 999	14,384	15.54	10,297,636	1.39
1,000 – 4,999	14,109	15.25	27,470,789	3.72
5,000 – 9,999	1,116	1.21	7,604,583	1.03
10,000 – 49,999	769	0.83	16,465,024	2.23
50,000 – 99,999	193	0.21	14,046,063	1.90
100,000 – 499,999	337	0.36	78,471,466	10.61
500,000 – 999,999	91	0.10	65,505,194	8.86
1,000,000 – highest	107	0.11	509,728,208	68.94
Total	92,536	100	739,364,254	100

FORWARD-LOOKING STATEMENTS

Both the Annual Review and Summary Financial Statement 2003 and the Annual Report and Financial Statements 2003 contain certain forward-looking statements as defined under US legislation (Section 21E of the Securities Exchange Act of 1934) with respect to the financial condition, results of operations and business of InterContinental Hotels Group and certain plans and objectives of the board of directors of InterContinental Hotels Group with respect thereto. Such statements include, but are not limited to, statements made in the Chairman's Statement and the Chief Executive's Review. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', or other words of similar meaning. These statements are based on assumptions and assessments made by InterContinental Hotels Group's management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate.

By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty. There are a number of factors that could cause actual results and developments to differ materially from those expressed in, or implied by, such forward-looking statements, including, but not limited to: events that impact domestic or international travel; levels of consumer and business spending in major economies where InterContinental Hotels Group does business; changes in consumer tastes and preferences; levels of marketing and promotional expenditure by InterContinental Hotels Group and its competitors; changes in the cost and availability of raw materials, key personnel and changes in supplier dynamics; significant fluctuations in exchange rates, interest rates and tax rates; the availability and effects of future business combinations, acquisitions or dispositions, the impact of legal and regulatory actions or developments; the impact of the European Economic and Monetary Union; the ability of InterContinental Hotels Group to maintain appropriate levels of insurance; exposures relating to franchise or management contract operations; the maintenance of InterContinental Hotels Group's IT structure, including its centralised reservation system; the development of new and emerging technologies; competition in the markets in which InterContinental Hotels Group operates; political and economic developments and currency exchange fluctuations; economic recession; management of InterContinental Hotels Group's indebtedness and capital resource requirements; material litigation against InterContinental Hotels Group; substantial trading activity in InterContinental Hotels Group shares; the reputation of InterContinental Hotels Group's brands; the level of costs associated with leased properties; and the weather.

Other factors that could affect the business and financial results are described in Item 3 Risk Factors as General Risks, Additional Risks relating to Six Continents Hotels and Additional Risks relating to the Soft Drinks business in the Annual Report of Six Continents PLC on Form 20-F for the financial year ended 30 September 2002, or in any Annual Report of InterContinental Hotels Group PLC on Form 20-F for any subsequent year, filed with the US Securities and Exchange Commission.

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