Operating profit. Operating profit in the ongoing estate of £288 million was 5.1% ahead of fiscal 2001 reflecting the overall sales growth of 5.7%. Post tax cash return on cash capital employed was over 10% in the year.

Cash flow and Investment. SCR generated an operating cash inflow of £144 million after net capital expenditure of £227 million. During the year, £163 million was spent on outlet acquisitions, conversions and expansion, which included £55 million on conversion of the former Allied Domecq pubs to SCR brands and formats.

Exceptional Items

Tangible fixed assets have been written down by £113 million following an impairment review of the hotel estate; £77 million has been charged as an operating exceptional item and £36 million reverses previous revaluation gains. Non-operating exceptional items of £57 million included the release of £48 million of disposal provisions no longer required and the receipt of £9 million in respect of the finalization of completion accounts issues, both of which related to the disposal of Bass Brewers in August 2000. In addition, £4 million has been charged for costs incurred to September 30, 2002, in evaluating the proposals announced by the board on October 1, 2002, to separate the Group’s retail business from the hotel and soft drinks operations. These operating and non-operating exceptional items have been treated as major exceptional items and have therefore been excluded from the calculation of adjusted earnings per share.

The taxation charge includes an exceptional credit of £114 million in respect of the release of tax provisions from prior years, a charge of £10 million in relation to property disposals, and a credit of £1 million in relation to the Separation costs referred to above. The exceptional credit of £114 million and the credit of £1 million in respect of Separation costs have been treated as major exceptional items and have been excluded from the calculation of adjusted earnings per share.

Net Interest

The net interest charge was £60 million compared to £59 million in fiscal 2001. The effect of a higher level of net debt was offset by lower average interest rates, a weaker US dollar exchange rate against sterling and the impact of translation hedging as set out below.

To hedge the exposures arising from the translation of foreign currency denominated assets and income streams, borrowings are taken out in foreign currencies. Hedging is carried out partly with currency swaps, which are equivalent to a deposit in sterling and the borrowing of an equivalent amount in the required currency. These are used together with interest rate swaps and other instruments which protect the Group against rises in interest rates. The use of such interest rate and currency swaps for hedging purposes reduced the Group’s interest charge by a net £19 million, representing the difference between sterling deposit rates and US dollar, euro or Australian dollar borrowing rates, together with the additional interest payable under the interest rate swaps.

Taxation

Excluding the impact of the major exceptional items, the tax charge represents an effective rate of 30.0%, compared with 30.4% for fiscal 2001. These rates reflect the adoption of FRS 19 (see “Basis of Accounting” in Note 1 of Notes to the Financial Statements).

Excluding the effect of major exceptional items and prior year items, the Group’s tax rate was 35.8%. 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.

Earnings and Dividends

Earnings totaled £457 million in fiscal 2002, compared with £443 million in fiscal 2001, and the equivalent basic earnings per share were 53.0p and 51.3p, respectively. As in previous years, earnings per share have been adjusted to eliminate the distorting effect of the major exceptional items, with the result that adjusted earnings per share were 42.4p, compared with 56.2p in fiscal 2001. Diluted earnings per share, which reflect the number of options outstanding at September 30, 2002, were 52.7p in fiscal 2002 compared with 51.0p in fiscal 2001.

A final dividend of 24.6p per share was declared on February 13, 2003, bringing the total dividend for the year to 35.3p. This represents an increase of 2.9% on fiscal 2001 and gives dividend cover of 1.2 times based on adjusted earnings.

Cash Flow and Capital Expenditure

Operating cash inflow of £207 million was £91 million higher than cash inflow for fiscal 2001 of £116 million. This reflected a much lower level of net capital expenditure in the fiscal year, which decreased from £868 million in fiscal 2001 to £513 million in fiscal 2002. SCH’s net capital expenditure was £348 million lower than in fiscal 2001, due in part to the fact that fiscal 2001 included the acquisition of the InterContinental Hong Kong for $346 million. SCR’s net capital expenditure of £227 million included £163 million in respect of outlet acquisitions, conversions and expansion which included £55 million on conversion of the former Allied Domecq pubs to SCR brands and formats.

Payment of interest, dividends and taxation of £497 million was £16 million lower than in fiscal 2001. Net debt at September 30, 2002, was £1,177 million, compared with £1,001 million at the start of the fiscal year.

New Accounting Standards

Financial Reporting Standard (FRS) 19 “Deferred Tax” applies for the first time in fiscal 2002. It requires full provision for deferred tax, subject to certain exceptions, arising from timing differences between the recognition of gains and losses in the financial statements and for tax purposes. The effect has been to increase the Group’s effective tax rate by six percentage points, although this is offset in the year by adjustments to opening balances, which reduce the reported impact to three percentage points. The full impact of adopting FRS 19 is detailed in Note 1 of Notes to the Financial Statements. FRS 19 has no impact on the Group’s cash flows.

Following the announcement by the Accounting Standards Board to defer the full implementation of FRS 17 “Retirement Benefits” to accounting periods beginning on or after January 1, 2005, the Group will continue to account for pensions under Statement of Standard Accounting Practice (SSAP) 24 “Accounting for Pension Costs”. The additional disclosures required by the transitional arrangements of FRS 17 are included in Note 4 of Notes to the Financial Statements.

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

Fiscal 2001 Compared with Fiscal 2000

Group

Total turnover fell by 21.8% from £5,158 million in fiscal 2000 to £4,033 million in fiscal 2001, while turnover from continuing operations increased by 6.8%. Total operating profit of £792 million compared with £905 million in fiscal 2000, while operating profit from continuing operations was up by 2.1% against £776 million in fiscal 2000. Profit before tax was £690 million in fiscal 2001, compared with £2,049 million in fiscal 2000; excluding major exceptional items in both years, adjusted profit before tax was £731 million against £756 million in the previous year. Basic earnings per ordinary share was 51.3p; eliminating the impact of major exceptional items, the adjusted earnings per ordinary share was 56.2p compared with 58.4p for fiscal 2000.

During fiscal 2001, the Group continued to reshape its business following the sale of the brewing operations in the previous year. In February 2001, SCR sold for £625 million, 988 smaller outlets that were not suited for conversion to its brands. In April 2001, SCH acquired the Posthouse hotel chain, comprising 79 hotels in the United Kingdom and the Republic of Ireland. In August 2001, SCH completed the acquisition of the former Regent Hotel in Hong Kong for $346 million.

The terrorist activities in the United States on September 11, 2001, and subsequent global uncertainty had a significant impact on international and domestic US travel which in turn impacted the results of the Group. The effect of these events is estimated to have reduced the profits of SCH during the period September 11, 2001 to

September 30, 2001 by some $25 million. In SCR, the outlets in central London were the only ones to have been impacted by the events of September 11.

Turnover for continuing operations increased by 6.8% to £4,033 million. SCH reported turnover growth of 19.9% to £1,896 million; however, this included a six month contribution of £144 million from Posthouse. In SCR, turnover from the ongoing estate was up 4.3% to £1,396 million.

Total operating profit amounted to £749 million; however, this included a major exceptional item of £43 million relating to reorganization, restructuring and strategic appraisal costs in SCH. Excluding this major exceptional item, operating profit from continuing operations of £792 million was up £16 million against £776 million in fiscal 2000. SCH operating profit before major exceptional items increased by £51 million to £427 million, including a six months contribution from Posthouse of £37 million; excluding Posthouse, the operating profit growth would have been 3.7%. SCR continued to actively reposition its estate towards larger branded outlets. Operating profit in the ongoing estate at £274 million was up 1.1% against £271 million in fiscal 2000. Soft Drinks had an exceptional year with operating profit growth of nearly 24%.

Profit before tax was £690 million compared with £2,049 million in fiscal 2000; excluding major exceptional items, adjusted profit before tax was £731 million in fiscal 2001 against £756 million in the previous year. The effective rate of tax at 30.4%, excluding the impact of the major exceptional items in both years, was unchanged from the previous year.

Basic earnings per share were 51.3p compared with 193.7p in fiscal 2000; eliminating the impact of major exceptional items, the adjusted earnings per share were 56.2p, a decline of 3.8% on the 58.4p achieved in fiscal 2000. The total dividend for the year was 34.3p, up 3.0% from fiscal 2000.

Group operating cash flow from continuing operations of £76 million compared to £328 million in fiscal 2000. This reduction was primarily due to the significant level of net capital expenditure for the Group’s continuing operations, which increased to £868 million from fiscal 2000 of £597 million. Payments of interest, dividends and taxation absorbed £513 million, compared with £585 million in fiscal 2000, reflecting the fact that the Group’s interest payments decreased significantly as a result of the average level of debt being lower following the disposal of the Group’s brewing operations in fiscal 2000. After taking account of the major acquisition in SCH of £752 million and the major disposal proceeds of £623 million, net cash outflow was £526 million compared with an inflow of £1,732 million in fiscal 2000.

Six Continents Hotels

Turnover. Total turnover was up by 19.9% to £1,896 million in fiscal 2001, while in US dollar terms turnover increased by 11.1% from $2,454 million in fiscal 2000 to $2,726 million in fiscal 2001. Of the increase, $208 million was due to the six months contribution from Posthouse.

The total SCH system size grew in fiscal 2001, from 3,063 hotels (491,100 rooms) at the start of the year to 3,267 hotels (514,700 rooms) at September 30, 2001 with over 70% of the growth in rooms outside the United States. This growth included the acquisition on April 4, 2001 of Posthouse, comprising 79 midscale hotels, of which 77 hotels were owned or held under long lease and 78 were in the United Kingdom and one in the Republic of Ireland. This acquisition was in line with the Group’s strategic goal of building its midscale distribution in Western Europe, and enabled the Holiday Inn brand to develop a strong position in the UK market. By the year end, 46 Posthouse hotels had been converted to Holiday Inn and by the end of October 2001 a further 12 were converted.

A further important strategic move was the acquisition of the Regent Hotel in Hong Kong. This hotel transferred to SCH management from June 1, 2001, and became fully owned from the end of August. The 514 room hotel, renamed the Hotel InterContinental Hong Kong, expanded SCH’s presence in Hong Kong and consolidated its position as the leading branded hotel company in China, giving the InterContinental brand higher visibility in the Asia Pacific region.

In Asia Pacific, the rebranding of the hotels acquired in fiscal 2000 from Southern Pacific Hotels Corporation continued with a further eight former Parkroyal and ten former Centra properties being converted to SCH brands.

These included two properties formerly managed but now owned by SCH – the InterContinental Wellington, New Zealand and the Crowne Plaza Canberra, Australia.

Excluding Posthouse, the overall system size grew by 125 hotels, or some 11,300 rooms. In the Americas region, the expansion of Holiday Inn Express continued with another 110 properties (all franchised) added in the year. The extended-stay brand, Staybridge Suites, also continued its expansion with 17 additions in the year.

The pipeline of hotels waiting to enter the SCH system at September 30, 2001 was 520 hotels with 69,100 rooms – this included approved applications for 441 franchises and 69 management contracts. Of the hotels in the pipeline, 392 were in the Americas and 109 in EMEA. An encouraging 18,600 rooms or 27% of the rooms in the pipeline were in the upscale InterContinental and Crowne Plaza brands.

A strength of SCH is the proportion of its business that is generated by its global reservation systems, including the Internet. During fiscal 2001, it is estimated that SCH’s reservation systems delivered around 30% of Americas midscale room nights sold. Internet bookings grew by nearly 80% over the previous year to 2.5 million room nights in fiscal 2001.

Operating Profit. Operating profit before major exceptional items increased by 13.6% from £376 million in fiscal 2000 to £427 million in fiscal 2001. In US dollar terms, operating profit increased by 5.0% to $613 million in fiscal 2001; excluding Posthouse, the operating profit would have been approximately 4.1% down on fiscal 2000. Operating profit was impacted by both the economic slowdown in the United States and the September 11, 2001, terrorist actions. It is estimated that the latter’s effect on late September trading was to reduce fiscal 2001 operating profit by approximately $25 million, or 4.3 percentage points of growth.

The weighted average US dollar to sterling exchange rate during the year was $1.44 against $1.55 in fiscal 2000; this benefited the Group as the SCH result was converted to sterling. Had US dollar and other major exchange rates been the same as in fiscal 2000, it is estimated that the SCH operating profit growth would have been 8.5%.

Americas. The Americas system size grew by 109 hotels and 9,500 rooms to 2,523 hotels with 366,900 rooms at September 30, 2001. As discussed above, this growth was almost entirely due to growth in the Express franchise system.

In fiscal 2000 SCH acquired Bristol, a US based hotel management company that leased or managed 112 hotels including 83 SCH branded properties. Bristol has now been fully integrated into the Americas business. This integration involved terminating a number of non-SCH branded operating leases, and converting all the remaining operating leases to management contracts.

The total Americas operating profit in fiscal 2001 was $345 million compared with $353 million in fiscal 2000. Following a strong first quarter (October to December 2000), the economic slowdown in the United States saw SCH experiencing first, declining RevPAR growth and then, RevPAR declines, in common with the rest of the US hotel industry.

The Americas O&L estate made an operating profit of $78 million, $17 million lower than in fiscal 2000. The decline was the result of three factors. First, the impact of the US economic slowdown, which particularly affected New York, Chicago and San Francisco, hit the InterContinental properties in these cities. Secondly, InterContinental had over 10% of its O&L rooms closed with the ongoing refurbishment of four key properties during fiscal 2001; and finally, the events of September 11 reduced profits in the last three weeks of fiscal 2001.

InterContinental’s O&L RevPAR was down by 14% on fiscal 2000 to the end of August 2001, and with September experiencing RevPAR over 50% down on fiscal 2000, the year ended 18% down. Comparisons to fiscal 2000 however, were distorted by the impact of the major refurbishments and room closures in the year. Gross operating margins held up well, reflecting SCH’s ability to manage hotels through the economic slowdown.

Crowne Plaza O&L properties weathered fiscal 2001 slightly better; for the 11 months to the end of August 2001, RevPAR was down 2.0% on fiscal 2000. With September 2001 RevPAR over 30% from September 2000, full year fiscal RevPAR was down 4.5%. As with InterContinental, gross operating margins in fiscal 2001 were in line with fiscal 2000.

The midscale franchise business achieved an operating profit of $224 million in fiscal 2001, well ahead of fiscal 2000 ($209 million). This result demonstrated two things: first the relative resilience for the franchisor (i.e. SCH) of the franchise model in an economic slowdown; and secondly, the relative strength of SCH’s key midscale brands, Holiday Inn and Holiday Inn Express. The midscale franchise system grew in the year, driven by Holiday Inn Express, which had a 7.4% increase in the number of rooms occupied. To the end of August 2001, RevPAR was holding up well, Holiday Inn being down only 0.8% and Holiday Inn Express up by 2.0%. With September RevPAR being 20% and 10% down respectively, Holiday Inn RevPAR finished fiscal 2001 2.5% down on fiscal 2000 and Holiday Inn Express up 0.8%.

As a result of the events of September 11, certain levels of support were put in place for franchisees in the United States. This support included the waiving of certain assessments on the hotels for a period of time and additional sales and marketing assistance.

Americas managed and upscale franchise operating profit totaled $43 million fiscal 2001, which included the fully integrated Bristol business. Crowne Plaza managed hotels RevPAR was 12.3% down for the full year and Crowne Plaza franchised RevPAR was 4.9% down for the full year, reflecting the same economic difficulties that afflicted the O&L estate. The conversion of the Bristol hotels from operating leases to management contracts, effective in the main from July 1, 2001, meant that SCH’s turnover was distorted by the inclusion of all the turnover of those hotels to that date, but only management fees received by SCH thereafter.

Europe, the Middle East and Africa. The acquisition of Posthouse was the key strategic event in the EMEA region in fiscal 2001, adding 77 owned and leased and 2 managed hotels to the SCH system. The overall EMEA system size grew to 585 hotels.

The O&L business saw operating profit rise by £37 million to £171 million in fiscal 2001, including £37 million from Posthouse. Performance of the O&L estate across the region was mixed. InterContinental O&L across EMEA achieved RevPAR growth of 1.2% to the end of August, with regional performance varying – United Kingdom (four properties) down 9.5%, France (three properties) up 9.6% and Germany (three properties) up 8.6%. Crowne Plaza similarly was ahead in the 11 months to August 2001, RevPAR being 1.6% ahead.

By August 2001, the US economic slowdown was already having a knock-on effect on European capital city hotels, particularly in London, where the reduction in both US business and leisure travel were affecting occupancy levels and RevPAR. The events of September 11, 2001, had a significant impact on those properties relying on international travel, in particular the upscale properties. Key properties in London and Paris saw a large RevPAR decline through the end of September. For the full year InterContinental O&L RevPAR fell by 1.3% and Crowne Plaza RevPAR was level with fiscal 2000.

Posthouse performed in line with expectations, generating an operating profit of £37 million in fiscal 2001, despite tough trading conditions, particularly in the south of England. Across EMEA, Holiday Inn saw O&L RevPAR up by 3.8%.

The EMEA managed and franchised businesses made an operating profit of £31 million, the same as fiscal 2000, despite a key property in Germany moving from management contract into ownership. RevPAR performance across the estate was mixed; to August 2001, InterContinental managed RevPAR was up by 0.4%, while Crowne Plaza managed RevPAR was down by 0.7% and franchise fell by 1.9%. Holiday Inn franchise saw RevPAR growth of 4.2% for the full year, while Express franchise also saw RevPAR growth of 4.2%.

Overall, EMEA’s operating profit was £202 million in fiscal 2001, 22% up on fiscal 2000 including the benefit of six months Posthouse trading. Excluding this, operating profit was level with fiscal 2000.

Asia Pacific. The Asia Pacific region had an operating profit of $26 million in fiscal 2001, $4 million down on fiscal 2000. Despite benefiting from a full 12 months of profits from the SPHC hotels acquired in January 2000, the economic conditions in the region, particularly in Australia, had an adverse impact on the results. While the Australian hotels performed ahead of their competitive sets, their O&L RevPAR was 5.7% down on the previous year with occupancy 1.8 percentage points lower. The events of September 11, 2001, also had some impact on the region, particularly in Hong Kong, where the Hotel InterContinental Hong Kong was acquired at the end of August 2001.

Other. The Other segment includes Central service costs, less other income items. In fiscal 2001, this income included $22 million of dividends received from FelCor, up $1 million on fiscal 2000, and $10 million of income from lease terminations. Following the events of September 11, 2001, FelCor management announced plans to re-evaluate its common dividend policy, which resulted in a significant dividend reduction.

Cash flow and Investment. Excluding the major acquisition of Posthouse, net capital expenditure amounted to £607 million in fiscal 2001. This included £139 million on the planned refurbishment program at InterContinental properties (£63 million in EMEA, £76 million in the United States) and the continued expansion of the Staybridge Suites brand in the United States (£28 million). In Asia Pacific, the acquisition of the Hotel InterContinental Hong Kong, as well the addition of the InterContinental Wellington, New Zealand and Crowne Plaza Canberra, Australia, both previously Parkroyal management contracts, contributed to the region's capital expenditure. The ongoing refurbishment program in the owned InterContinental estate was expected to continue to require large capital expenditure in fiscal 2002, particularly on the hotels in Paris (Le Grand), Cannes, Chicago and Madrid. Fiscal 2002 will also include expenditure on the continuing refurbishment and upgrade of the London Forum. This was rebranded from October 1, 2001 to the Holiday Inn London – Kensington Forum and, with 910 rooms, became the world's largest Holiday Inn.

SCH operating cash flow in fiscal 2001 was an outflow of £80 million compared with an inflow of £114 million in fiscal 2000. This reflected the higher level of net capital expenditure in fiscal 2001.

Soft Drinks

Turnover. Overall, turnover was up by 5.9% to £571 million in fiscal 2001 on volumes up 3.2% on fiscal 2000.

Although the disappointing fourth quarter of fiscal 2000 continued into the first quarter of fiscal 2001, virtually all sectors saw growth in the summer period. Fiscal 2001 saw the continuation of intense competition by major retailers on pricing, which resulted in average retail prices in the take-home channel being flat year on year.

Robinsons performed strongly in fiscal 2001, generating volume growth of over 17% on fiscal 2000 and increased its share of the dilutables market by 3.2 percentage points. Fruit Shoot, launched in the summer of 2000, captured 4.5 percentage points of the fruit drinks take-home market in fiscal 2001. However, Soft Drinks saw a reduction of 1 percentage point in its market share of the take-home carbonates market, due to intense promotional investment by competitors.

Operating profit. Soft Drinks had an exceptional year in fiscal 2001, with operating profit of £57 million up 23.9% on fiscal 2000.

Cash Flow and Investment. Soft Drinks continued to invest in new product development and expansion of its production capacity. Operating cash inflow in fiscal 2001 was £99 million after capital investment of £28 million.

Six Continents Retail

Turnover. Total turnover in the ongoing estate was up 4.3% to £1,396 million in fiscal 2001, with food sales up 10.1% and drink sales up 3.1%. In core uninvested outlets, like-for-like sales were down 0.8% over the previous fiscal year in total, but this represented year on year growth in the second half of 0.1%. Branded uninvested like-for-like sales were 0.4% ahead of the previous year, with particularly strong performances from Ember Inns, Hollywood Bowl, Vintage Inns and All Bar One.

The market started to see an underlying improvement in the balance of supply and demand for the pub and restaurant sector in general. However, there were a number of one-off adverse external factors which impacted trading. Fiscal 2001 started with exceptionally wet weather and regional flooding, followed by the impact of the foot and mouth epidemic in the spring. Against this background, increases in employment and property costs continued to put pressure on SCR's cost base. The trend towards polarization of the market to large branded outlets and smaller unbranded community pubs continued apace, with leading pub retailers continuing to rationalize their estates.

SCR continued to actively move the mix of its estate towards larger branded outlets, moving from 792 branded outlets at the end of fiscal 2000 to 967 at the end of fiscal 2001. In February 2001, SCR sold 988 smaller outlets that were not suited for conversion to its brands for £625 million. Investment in the ongoing estate continued strongly with the opening of 36 new branded outlets and the conversion of a further 139 unbranded outlets to branded formats. Of the 550 former Allied Domecq outlets acquired in the previous fiscal year, at the end of fiscal 2001 a total of 263 had been converted to SCR formats and a further 41 refurbishments were in progress. These converted sites recorded sales uplifts in excess of 40% above the last full year under the previous owners.

At the end of fiscal 2001, SCR operated a total of 2,053 managed outlets; 639 in the Restaurants division and 1,414 in the Pubs & Bars division. The continuing shift in the shape of the business away from a beer dominated pub operator was illustrated through the change in sales mix, with food sales accounting for 28% of total sales compared with 23% in fiscal 2000. As a result, the overall average weekly takings per outlet increased from £10,700 in fiscal 2000 to £13,900 in fiscal 2001, a rise of 30%. Over 650 outlets had average weekly takings in excess of £15,000, compared with just over 540 outlets in fiscal 2000. The number of outlets with sales in excess of £20,000 rose to over 350, compared with some 300 outlets in fiscal 2000.

Operating profit. Total operating profit of £305 million was 11.8% down on the prior year. In the ongoing estate, operating profit grew by 1.1% to £274 million, however this growth was held back by the refurbishment program. The incremental negative impact of closure and pre-opening costs resulting from the accelerated investment program was £11 million; excluding these costs, the underlying operating profit growth was 4.9%. The investment in branded outlets continued to generate returns on average in excess of 15%.

Cash flow and Investment. SCR generated an operating cash inflow of £66 million after net capital investment of £288 million, compared with an operating cash inflow of £213 million after net capital expenditure of £204 million in fiscal 2000. In fiscal 2001, £224 million was spent on outlet acquisitions, conversions and expansion and included £102 million on conversion of the former Allied Domecq pubs to SCR brands and formats.

Exceptional items

The operating exceptional item of £43 million related to reorganization, restructuring and strategic appraisal costs in SCH. The non-operating exceptional items of £2 million included a loss on the disposal of 988 smaller unbranded pubs, and a profit from the finalization of the pension scheme transfer, following the disposal of the Group’s brewing operations last year. These operating and non-operating items have been treated as major exceptional items and their effect, along with the impact of the associated tax charge of £1 million have been excluded from the calculation of adjusted earnings per share. Other exceptional items were minor and amounted to a £2 million charge in total.

Net Interest

The net interest charge decreased by £93 million to £59 million. This was mainly due to the lower average level of debt following the receipt of £2.3 billion from the disposal of the Group’s brewing operations last year. The Group saw a further reduction in the level of net debt following the sale of the 988 pubs in February 2001, but borrowings later increased with the acquisition of Posthouse and the Hotel InterContinental Hong Kong.

The Group deposited the brewing and pub proceeds in sterling investments and also in currency swaps which were used to replace US dollar and other currency borrowings from banks. As a result there was an £87 million increase in net sterling interest receivable. US dollar interest payable fell by some £7 million overall. This was the net result of lower overall interest rates more than offsetting the impact of higher average borrowings, and a weaker average sterling/US dollar exchange rate (2001 £1:$1.44; 2000 £1:$1.55).

Taxation

Excluding the impact of the major exceptional items, the tax charge represents an effective rate of 30.4%, unchanged from fiscal 2000.

Excluding the effect of major exceptional items and prior year items, the Group tax rate was 30.5%, compared with 30.0%, the rate nominally applicable in the United Kingdom. This difference arises primarily due to overseas profits being taxed at rates higher than the UK statutory rate, offset by the recognition of certain overseas tax losses following an internal reorganization.

Earnings and Dividend

Earnings totaled £443 million in fiscal 2001 against £1,691 million in fiscal 2000; the equivalent basic earnings per share were 51.3p and 193.7p, respectively. Eliminating the distorting effect of the major exceptional items, adjusted earnings per share were 56.2p, compared with 58.4p in fiscal 2000. Diluted earnings per share, which reflect the number of options outstanding at September 30, 2001, were 51.0p in fiscal 2001 compared with 192.4p in fiscal 2000.

The total dividend for the fiscal year was 34.3p, representing an increase of 3.0% on the previous fiscal year and dividend cover of 1.6 times based on adjusted earnings.

Cash flow and Capital Expenditure

Operating cash inflow from continuing operations of £76 million was £252 million lower than the prior fiscal year's cash inflow of £328 million, reflecting the significant increase in the level of net capital expenditure, which increased by £271 million to £868 million. Net capital expenditure in SCH was significantly higher than in the previous year and reflected the acquisition of the Hotel InterContinental Hong Kong for $346 million and expenditure on the ongoing refurbishment program of the InterContinental owned hotels. SCR net capital expenditure of £288 million was £84 million higher than in the previous fiscal year, due to expenditure on outlet acquisitions, and the continued refurbishment and conversion to SCR brands of the pubs formerly owned by Allied Domecq.

Payment of interest, dividends and taxation absorbed £513 million, compared with £585 million in fiscal 2000. The main reason for this improvement in cash flow was the decrease in the Group's interest payments, as a result of the average level of debt being much lower following the disposal of the Group's brewing operations in fiscal 2000. Including cash flows from discontinued operations, normal cash outflow was £397 million, being £295 million more than fiscal 2000.

The cash outflow of £752 million for major acquisitions reflected the amount paid for Posthouse. Major disposals cash inflow of £623 million reflected the proceeds from the sale of 988 smaller unbranded outlets and the receipt of deferred consideration in respect of the pension scheme transfer, following the sale of Bass Brewers in fiscal 2000. After taking account of £103 million for the repurchase of Six Continents PLC shares, the impact of exchange movements and debt acquired, net debt at September 30, 2001, was £1,001 million, compared with £345 million at the start of the fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

Six Continents' policy is to maintain a combination of medium- and long-term capital market borrowings and committed bank facilities to ensure that it has sufficient financial resources to meet its medium-term funding requirements. At September 30, 2002 gross debt (including currency swaps) amounted to £3,632 million, comprising £1,953 million of US dollar borrowings, £532 million of sterling borrowings, £811 million of euro borrowings, £215 million of Hong Kong dollar borrowings and the remainder denominated in a variety of other currencies (after the effect of currency swaps).

Long-term borrowing requirements at September 30, 2002 were met through sterling debentures and other bonds denominated in sterling, US dollar or euro. Short-term and medium-term borrowing requirements are met from drawing under committed bank facilities, commercial paper programs and a medium-term note facility. At September 30, 2002, committed bank facilities amounted to £1,628 million and uncommitted facilities to £155 million; of these total facilities, only £750 million was utilized.

During fiscal 2002 the Group continued to make use of currency swaps to maintain the Group's policy of hedging foreign currency denominated assets and income streams.

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.

The Group also held short-term deposits and investments (including currency swaps) at September 30, 2002 amounting to £2,455 million. Credit risk on treasury transactions is minimised by operating a policy on 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 United Kingdom or United States and there are no material funds where repatriation is restricted as a result of foreign exchange regulations.

Net debt at September 30, 2002 was £1,177 million and gearing (net debt expressed as a percentage of shareholders’ equity) was 22%.

Six Continents believes that the requirements of its existing business and future investment can be met from cash generated internally, disposal of assets and businesses and external finance expected to be available to it.

At September 30, 2002, £848 million of total borrowings (excluding currency swaps), were due for repayment within one year, £14 million was due for repayment between one and two years, £84 million between two and five years and £533 million was due for repayment after five years.

On December 5, 2002 the Group announced a tender offer for the repurchase of all outstanding medium-term notes. This offer was accepted by the holders of all the £10 million Floating Rate Notes due 2004, all the €25 million 4.52% Notes due 2006 and 92.76% of the principal amount of the £250 million 5.75% Notes due 2007. Accordingly, all the 2004 and 2006 Notes and 92.76% of the 2007 Notes were repurchased on January 28, 2003.

At a meeting of the holders of the £250 million 10 3/8% Debenture Stock 2016 (the “Stock”) convened on January 14, 2003, a resolution was passed approving the insertion of an option into the terms and conditions of the Stock requiring the Company to redeem the Stock, no later than May 31, 2003. This enables the Company to redeem the Stock at a price corresponding to a yield of 100 basis points over the yield of UK Treasury Stock 8% due 2015. The Company gave notice to Stockholders on February 11, 2003 that it will redeem all of the Stock on February 27, 2003. The premium on redemption is currently estimated at £122 million.

On February 3, 2003, Six Continents signed a new bank facility agreement with Barclays Capital, HSBC Bank plc, J.P. Morgan plc, Salomon Brothers International Limited and The Royal Bank of Scotland plc acting as joint arrangers (the “Arrangers”) and HSBC Bank plc as agent in respect of a 364-day £3,000 million revolving credit facility with a term-out option (“Bridge Facility Agreement”). The Bridge Facility Agreement is expected to cover the short time period between February 13, 2003, (the date on which the balance of the current Six Continents’ $3,000 million syndicated loan facility matured) and the date of completion of the Separation when it is expected to be canceled and prepaid.

Exchange and Interest Rate Risk, and Financial Instruments

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 audit. The treasury function does not operate as a profit center. 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.

Movements in foreign currency exchange rates, particularly in the US dollar and the euro, can affect the Group’s reported net income, net assets, gearing (net debt expressed as a percentage of shareholders’ funds) 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 fiscal 2002, the interest on US dollar borrowings hedged around 73% of the profit generated in US dollars, while interest on euro borrowings hedged around 85% of profit generated in euro and related currencies. During 2002, the US dollar was on average 3% weaker than in 2001 by comparison with sterling, while the euro was 1% stronger. The impact of the US dollar exchange rate movement was to decrease operating profit by £3 million offset by a reduction of £2 million in the interest charge.

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.

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. At September 30, 2002, 34% of borrowings were at fixed rates and 66% were at variable rates. Based on the year-end net debt position 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 interest rates, would increase the net interest charge by approximately £8 million and £5 million, respectively. A similar movement in sterling rates would have the opposite effect, reducing the net interest charge by approximately £14 million.

Commitments Under Operating Leases

At September 30, 2002, the Group had commitments under noncancelable operating leases as follows:

	September 30, 2002
	(£ million)
Due within one year	108
Due between:	
one to two years	92
two to three years	83
three to four years	80
four to five years	78
thereafter	1,569
	2,010

Performance Guarantees

In limited cases, the Group may provide performance guarantees to third-party owners to secure management contracts. It is the Company’s view that, other than to the extent that liabilities have been provided for in the financial statements, such guarantees are not expected to result in material financial loss to the Group.

Material Commitments for Capital Expenditure

As of September 30, 2002, Six Continents had committed contractual capital expenditure of £314 million; of this amount, £281 million related to SCH and Soft Drinks and £33 million to SCR. Contracts for expenditure on fixed assets are not authorized by the directors on an annual basis, as divisional capital expenditure is controlled by cash flow budgets. Authorization of major projects occurs shortly before contracts are placed.

The current plans include SCH’s intention to invest approximately £450 million net capital expenditure in fiscal 2003. This level of capital expenditure is reviewed regularly during the year and may be increased or decreased in the light of prevailing economic and market conditions and other financial considerations. Individual asset capital plans will also be reviewed to assess the appropriateness of the projects and their timing. It is expected that the rate of new capital commitment for SCH will be at a lower rate than in recent years.

The total capital invested by the Group in fiscal 2002 and 2001 was £686 million and £1,728 million, respectively.

Pension Plan Commitments

As part of the Separation, M and B will become the sponsoring employer for the Six Continents Pension Plan and the Six Continents Executive Pension Plan (the “Plans”). Subject to completion of the Separation, approximately 30% of the assets and liabilities of these Plans will be transferred to the new InterContinental PLC and Britvic Group plans with effect from April 1, 2003. Following April 1, 2003, M and B will continue to be exposed to the remaining funding risks in relation to the defined benefit sections of the Plans and the InterContinental Group will be exposed to the funding risks in relation to the defined benefit sections of the new InterContinental PLC and Britvic Group plans. Such risks are as explained in “Item 3. Key Information – Risk Factors”.

Both of these approved schemes were last formally valued as at March 31, 2002, but there have been substantial changes in stock market performance since then. Informal figures determined by the schemes’ actuary as at December 31, 2002, showed the staff scheme’s and executive scheme’s defined benefits respectively to be funded at 116% (i.e. £108 million surplus) and 112% (i.e. £28 million surplus) on the statutory minimum funding requirement and 83% (i.e. £163 million deficit) and 85% (i.e. £45 million deficit) on an ongoing basis. The actuary has recommended, in relation to the staff scheme defined benefits, that for future service accrual, from October 1, 2002 employers contribute at a rate of 11%. The corresponding recommended percentage in relation to the executive scheme is 27.1%. These rates have been implemented from October 1, 2002. In late September 2002, Six Continents decided to make additional contributions to the Plans of £60 million of which £15 million was paid prior to the end of September 2002. Future funding requirements will be determined on a triennial basis following actuarial valuations.

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TREND INFORMATION

Six Continents Hotels

Trading

SCH has seen encouraging revenue recovery in the first quarter of fiscal 2003, against weak prior year comparables, and many of its brands have again outperformed their respective markets. This reflects the benefits of SCH’s refurbishment programs and the decision to increase investment in sales, marketing and technology. However, profits were substantially lower due to the planned cost increases, which weighed heavily in the first quarter of fiscal 2003, the loss of profit from hotels in renovation and the fact that the revenue growth was largely driven by occupancy. SCH expects these costs to diminish as fiscal year 2003 progresses and benefits to arise from the return of the InterContinental Le Grand Hotel Paris in the second half of fiscal 2003.

In all regions RevPAR performed better in the first quarter of fiscal 2003 than the same period in the prior year. However, RevPAR is below the same period two years ago.

In the Americas, SCH’s newly renovated InterContinental hotels continued to outperform in aggregate the markets in the key cities in which they operate. The owned Americas InterContinental RevPAR is up 20.8% in the first quarter to December 31, 2002. Crowne Plaza had a creditable performance in the first quarter outperforming its market and showing a RevPAR increase of 5.9%.

In the same period, SCH’s mid-scale franchise businesses performed very well despite the ongoing difficult market conditions, with Holiday Inn Express continuing to outperform its relative market with RevPAR up 3.5% and Holiday Inn performing in line with its relative market with RevPAR up 2.3%. In operating profit terms the Americas region is marginally up on fiscal 2002.

In EMEA, underlying trading in SCH’s O&L upscale hotels remains depressed due to the high dependency on US guests. In the first quarter of fiscal 2003, the InterContinental Le Grand Hotel Paris was closed against a period in which it was open in fiscal 2002. The hotel is expected to reopen in Spring 2003. RevPAR for owned and leased InterContinental and Crowne Plaza hotels was up 12.8% and 2.0%, respectively, in the first quarter of fiscal 2003 benefiting from the increase in marketing activity.

Holiday Inn UK, after adjusting for rooms out for renovation, has continued to outperform its relative market, also having benefited from increased revenue investment. As a result, across the EMEA region as a whole, the aggregate of specific cost increases, and the loss of profit from hotels in refurbishment has meant that profits are substantially down on fiscal 2002.

In Asia Pacific, the InterContinental Hong Kong has had a very strong performance, benefiting from an increase in sales and marketing, with the result that profits for the region as a whole were well ahead of fiscal 2002.

SCH has planned investment in marketing and IT expenditure of $30 million for fiscal 2003. Of this amount some $13 million has been spent in the first quarter of 2003 as planned, with a consequent increase in central costs. Dividends received from Felcor were down $4 million.

Outlook

In the Americas and EMEA continued downward pressure on corporate profitability, together with the increasing climate of uncertainty as a result of slowing economic growth and the ongoing threat of war, continue to affect the prospects for SCH’s business.

Against this background, SCH is continuing to drive RevPAR, particularly in its refurbished hotels. At the same time SCH is renewing its focus on the cost base, working on the assumption that the trading environment will remain difficult.

Soft Drinks

Turnover in the Soft Drinks business rose by over 7% in the first quarter of fiscal 2003. The Soft Drinks business’ leading brands have performed well, with Pepsi and Robinsons in particular having good first quarters

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during which both brands grew market share. Tight business controls have led to strong profit growth over the first quarter of fiscal 2002.

Six Continents Retail

Trading

In SCR, total sales were 1% ahead of the same period in fiscal 2002 with some improvement since mid December 2002. SCR continues to see weaker trading in greater London and on the high street (main street). However, sales generated in residential areas outside London, accounting for 60% of SCR’s business, continue to be more resilient. Actions have been taken to enhance staff productivity further and to reduce support function costs to mitigate increases in regulatory and pension costs (see below).

The high street and greater London markets saw a significant slowdown in the last quarter of 2002, and trading conditions have remained difficult in those areas. However, there has been more resilient trading in the suburban estate, particularly from food sales.

Total sales were up 1% with food sales ahead by 3% and drinks sales marginally down. Uninvested like for like sales in the eight weeks from November 23, 2003 were down 3.3%, an improvement on the previous eight weeks, resulting in uninvested like for like sales in the 16 weeks to January 18, 2003, down 3.9%.

In the year to date, food and drink gross margin percentages have been held against last year. However, following successful trials of some controlled promotional activities to generate incremental sales, SCR plans to reinvest around one percentage point of gross margin in the balance of the year through these and further promotional activities.

SCR continues to drive benefits from its scale, with gains in staff productivity in December 2002 and January 2003 running at 5% over the same period in fiscal 2002. SCR is also driving further purchasing benefits. In addition, as a result of actions already taken, SCR is confident of delivering £10 million of annualized central cost reductions, of which approximately £5 million will be realized in the second half of fiscal 2003.

Regulatory driven costs are expected to increase by £9 million this year and there is an additional increase of £7 million in pension costs.

With the continuing strength in property prices, SCR is taking advantage of specific value-enhancing disposal opportunities, largely for alternative use. These amount to £16 million in the year to date and are ahead of schedule, against a forecast of at least £25 million for fiscal 2003.

Outlook

While SCR is not immune to any overall slowdown in UK consumer expenditure, it expects the recent trends to continue for the balance of the fiscal year. With a focus on the residential areas and value for money food, coupled with the increasing impact of cost reductions and rising staff productivity, SCR expects to deliver a resilient performance relative to a slowing economy for the rest of fiscal 2003.