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Exchange Rates

The following tables show, for the periods and dates indicated, certain information regarding the exchange rate for pounds sterling, based on the Noon Buying Rate for pounds sterling expressed in US dollars per £1.00. The exchange rate on March 26, 2004 was £1.00 = $1.81.

Month	Month's Highest Exchange Rate	Month's Lowest Exchange Rate
September 2003	1.66	1.57
October 2003	1.70	1.66
November 2003	1.72	1.67
December 2003	1.78	1.72
January 2004	1.85	1.79
February 2004	1.90	1.82
March 2004 (through March 26, 2004)	1.87	1.79

Year ended September 30	Period End	Average Rate (1)	High	Low
1999	1.65	1.63	1.72	1.55
2000	1.48	1.55	1.68	1.40
2001	1.47	1.44	1.50	1.37
2002	1.57	1.48	1.58	1.41
Period ended December 31				
2003	1.78	1.63	1.78	1.54

(1) The average of the Noon Buying Rate on the last day of each full month during the period.

A significant portion of the Group's assets, liabilities and revenues are denominated in currencies other than pounds sterling, principally the US dollar and euro. For a discussion of the impact of exchange rate movements, see "Item 11. Quantitative and Qualitative Disclosures About Market Risk".

RISK FACTORS

This section describes some of the risks that could materially affect the Group's businesses. The factors below should be considered in connection with any forward looking statements in this Form 20-F and the cautionary statements contained on page 6.

The risks below are not the only ones that the Group faces. Some risks are not yet known to IHG and some that IHG does not currently believe to be material could later turn out to be material. All of these risks could materially affect the Group's businesses, turnover, operating profit, earnings, net assets and liquidity and capital resources.

The Group is exposed to the risks of economic recession

The Group is exposed to the risks of either a global economic recession or a recession in one or more of its key markets that could lower revenues and reduce income. A recession would adversely affect room rates and/or occupancy levels and other income generating activities resulting in deterioration of results of operations and potentially affecting the value of properties in affected economies.

The Group is exposed to the risk of events that adversely impact domestic or international travel

The Group's room rates and occupancy levels could be adversely impacted by events that reduce domestic or international travel, such as actual or threatened acts of terrorism or war, epidemics, travel-related accidents, travel-related industrial action, increased transportation and fuel costs and natural disasters resulting in reduced worldwide travel or other local factors impacting individual hotels.

In fiscal 2003, the outbreak of SARS dramatically reduced travel to Toronto, Hong Kong, Singapore, China and to other destinations in Asia. If the apparently successful efforts to control the disease are not maintained and the disease reappears or spreads beyond previously affected areas to other markets, particularly in the United States or Europe, the resulting decline in travel could have an adverse impact on the Group's business, financial condition and results of operations. Additionally, future epidemics such as the SARS epidemic could materially harm the Group’s future financial results.

Terrorist incidents such as the events of September 11, 2001, and the bombings in Bali in October 2002 and the war in Iraq in 2003 have significantly affected international travel and consequently global demand for hotel rooms. Further incidents or uncertainties in this area may have an adverse impact on the Group’s operations and financial results.

The Group is exposed to the risk of increased use of intermediaries’ reservation channels

The value of the Group’s brands is partly derived from the ability to drive reservations through its proprietary HolidexPlus reservation system. In recent years there have been very rapid changes in the ability to choose and book hotel rooms, partly driven by the internet, with the emergence of intermediaries which market hotel rooms in such a way that there is the risk of commoditization of hotel rooms. Some of the emerging business models and intermediaries could have a significant impact on the ability of the Group to continue to drive reservations, and hence have an impact on the value of the Group’s brands. Additionally, these channels, including off-line intermediaries and travel agents, are becoming more consolidated which may lead to higher costs of distribution for the Group, for example by intermediaries being able to demand higher commissions. Although the Group is actively taking steps to adapt to the changing environment (by developing competitive internet reservation systems for its own benefit), because of the very high pace of change in this area there is a risk that the Group will not adapt quickly enough.

The Group is reliant on the reputation of its brands and the protection of its intellectual property rights

An event that were to materially damage the reputation of one or more of the Group’s brands and/or failure to sustain the appeal of the Group’s brands to its customers could have an adverse impact on the value of that brand and subsequent revenues from that brand or business. Given the importance of brand recognition to the Group’s businesses, the Group has invested considerable effort in protecting its intellectual property, including by registration of trademarks and domain names. If the Group is unable to protect its intellectual property, any infringement or misappropriation could materially harm its future financial results and ability to develop its businesses.

The Group is exposed to the risks of the hotel industry supply and demand cycle

The Group’s future operating results could be adversely affected by industry over-capacity (by number of rooms) and weak demand. Reductions in room rates and occupancy levels would adversely impact the Group’s results of operations.

The Group may not be able to increase or maintain the number of its properties operated by its franchisees or pursuant to its management contracts

Competition may generally reduce the number of suitable management, franchise and investment opportunities offered to the Group, and increase the bargaining power of property owners seeking to engage a manager or become a franchisee. There can be no assurance that the Group will be able to identify, retain or add franchisees to the Group system or to secure management contracts. There are also risks that significant franchisees or groups of franchisees may have interests that conflict, or are not aligned, with those of the Group. Changes in legislation or regulatory changes may be implemented that have the effect of favoring franchisees relative to brand owners.

The Group is exposed to political and economic developments and currency exchange rate fluctuations

Global political and economic developments and currency exchange rate fluctuations may impact results of operations. In addition, local economic factors such as local interest rates, risks of hyper-inflation or deflation and political developments in some countries could adversely impact the Group’s results of operations. Political or economic factors could effectively prevent the Group from receiving profits from, or from selling its investments in, certain countries. In addition, fluctuations in currency exchange rates between the UK pound sterling, the currency in which the Group reports its financial statements, and the US dollar and other currencies in which the Group’s international operations or investments do business, could adversely affect the Group’s reported earnings and the value of its businesses. Fluctuations of this type have been experienced recently with the significant strengthening of the pound against the dollar.

The Group is dependent upon recruiting and retaining key personnel and developing their skills

In order to develop, support and market its products, the Group must hire and retain highly skilled employees with particular expertise. The implementation of the Group’s strategic business plans could be undermined by failure to recruit or retain key personnel, the unexpected loss of key senior employees, failures in the Group’s succession planning and incentivization plans, or a failure to invest in the development of key skills. Additionally, unless skills are supported by a sufficient infrastructure to enable knowledge and skills to be passed on, the Group risks losing accumulated knowledge if key employees leave the Group.

The Group is exposed to changes in consumer perception and preference adversely affecting its brands

The Group’s range of brands and relevance to the sectors of the markets in which it operates may be adversely affected by changes in taste, commoditization (whereby the price and quality of hotel rooms become relatively more important than brand identifications) or other factors affecting consumers’ willingness to purchase goods or services, including any factor which adversely affects the reputation of those brands.

The Group is exposed to regulatory action

Both in the United Kingdom and internationally, the Group’s operations are subject to regulation, and further changes in regulation could adversely affect results of operations. Examples of such regulatory changes could include:

- Further employment legislation which could impact labor costs such as minimum wage and maximum working hours, overtime, working conditions, recruiting and terminating employees and work permits.

- Changes in tax legislation and practice.

- Future legislation or regulation or different enforcement of current legislation or regulations, particularly in the areas of competition law, consumer protection, nondiscrimination, franchise and environmental law could adversely affect the Group’s operations. The Group’s operations are exposed to governmental actions in almost 100 countries and territories. The hospitality industry is heavily regulated, including with respect to food and beverage sales, employee relations, diversity and access for the disabled, construction and environmental concerns. Compliance with these laws could reduce revenues and profits of properties owned or managed by the Group. The Group and its various properties are subject worldwide to numerous laws, including those relating to the preparation and sale of food and beverages, such as health and liquor license laws. Additionally, the success of the Group’s strategy in relation to the expansion of its existing properties may be dependent upon obtaining necessary building permits or zoning variances from local authorities. The Group is also subject to foreign and US federal, state and local laws and regulations relating to the environment and the handling of hazardous substances which may impose or create significant potential environmental liabilities, even in situations where the environmental problem or violation occurred on a property before the Group acquired it.

- Adverse regulatory developments could limit or prevent the Group receiving profits from, or limit its ability to sell, the properties affected by the regulatory change.

The Group is exposed to certain risks in relation to technology

A failure by the Group to take advantage of new technology and developments could put the Group at a competitive disadvantage in the field of e-commerce and business-to-business hospitality or supplier procurement or any other aspect of the Group businesses dependent upon its technology infrastructure. The Group may have to make substantial additional investments in new technologies to remain competitive. The technologies that the Group chooses may not prove to be commercially successful or the information technology strategy employed may not be sufficiently aligned or responsive to changes in business strategy. As a result, the Group could lose customers, fail to attract new customers or incur substantial costs in order to maintain its customer base or face other losses. Additionally, failure to develop an appropriate e-commerce strategy and select the right partners could erode the Group’s market share.

The Group is reliant upon its HolidexPlus reservation system which is an electronic booking and delivery channel directly linked to travel agents, hotels and internet networks. Inadequate disaster recovery arrangements leading to loss of key communications linkages, particularly in relation to HolidexPlus and other key parts of the IT infrastructure for a prolonged period, or permanently, may result in significant business interruption and subsequent impact on revenues.

The Group may be unable to sustain the new organizational structure or meet cost-saving strategies on an ongoing basis

The Group has implemented a new organizational structure and certain cost-saving strategies relating to its non-hotel cost base. There is no assurance that the organizational structure will remain appropriate or that annualized cost-savings will be realized, which could adversely affect the financial performance of the Group.

The Group may be unable to make disposals of hotel assets

The Group has stated its intention to dispose of assets that do not have strategic value, either with or without brand representation. If a disposal is appropriate, there can be no assurance that the Group will be able to complete any such selected disposals on commercially reasonable terms, or at all.

The Group is exposed to the risk of litigation

The Group could be at risk of litigation from its guests, customers, joint venture partners, suppliers, employees, regulatory authorities, franchisees and/or the owners of hotels managed by it for breach of its contractual or other duties. Claims filed in the United States may include requests for punitive damages as well as compensatory damages.

Exposure to litigation may affect the Group’s reputation even though the monetary consequences are not significant.

The Group may face difficulties insuring its businesses

Historically, the Group has maintained insurance at levels determined by it to be appropriate in light of the cost of cover and the risk profiles of the businesses in which it operates. Following the effects of the September 11, 2001 terrorist attacks and subsequent events, many companies faced increased premiums for reduced cover as the insurance market hardened. A repeat of incidents of this nature may result in the Group experiencing significant increases in the cost of insuring its business at an acceptable level, or in the Group being unable to obtain cover for certain risks at a realistic price.

The Group is exposed to funding risks in relation to the defined benefits under its pension plans

The Group is required by law to maintain a minimum funding level in relation to its ongoing obligation to provide current and future pensions for the members of its pension plans who are entitled to defined benefits. In addition, if any plan of the Group is wound up, the Group could become statutorily liable to make an immediate payment to the trustees to bring the funding of these defined benefits to a level which is higher than this minimum. The contributions payable by the Group must be set with a view to making prudent provision for the benefits accruing under the plans of the Group.

Some of the issues which could adversely affect the funding of these defined benefits (and materially affect the Group’s funding obligations) are: (i) poor investment performance of pension fund investments; (ii) long life expectancy (which will make pensions payable for longer and therefore more expensive to provide); (iii) adverse annuity rates (which tend in particular to depend on prevailing interest rates and life expectancy) as these will make it more expensive to secure pensions with an insurance company; and (iv) other events occurring which make past service benefits more expensive than predicted in the actuarial assumptions by reference to which the Group’s past contributions were assessed.

The Group’s indebtedness could adversely affect its financial position

The Group has put in place borrowing facilities to meet its expected capital resource requirements. The Group’s ability to borrow under these and any other additional facilities which it might seek to establish will require that the Group be able to comply with certain financial and other covenants contained in the relevant facility documentation. If the Group’s revenues, cash flow or credit ratings do not meet expectations, the Group may lose its ability to borrow money or to do so on terms it considers to be favorable. Conditions in the capital markets will also affect the Group’s ability to borrow funds or to raise equity financing, as well as the terms it may obtain. All of these factors could also make it difficult or impossible for the Group otherwise to raise capital needed to pursue its strategy.

The Group cannot assure investors that it will be able to arrange any additional financing or refinancing needed to fund its capital resource requirements on acceptable terms, or at all.

If the Group’s levels of debt increase substantially, its business may not be able to generate sufficient cash flow to service its debt and/or continue its investment program.