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Basic earnings per share for the 15 months ended December 31, 2003 was 2.6p (62.5p for the year ended September 30, 2002). Adjusted earnings per share, after eliminating the effect of exceptional items, was 48.4p for the 15 months ended December 31, 2003 (51.4p for the year ended September 30, 2002). Dividends for the 15 months ended December 31, 2003 were 21.15p per share. A reconciliation of actual to adjusted earnings per share is set out in Note 9 of Notes to the Financial Statements.

In conjunction with the Separation, the Group reorganized 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 €600 million of Guaranteed Notes.

Subsequent to year end the Group has commenced an on-market share repurchase program. See “Liquidity and Capital Resources – Sources of Liquidity”.

Exceptional Items

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

Provisions against fixed asset investments of £56 million 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 December 31, 2003.

A charge of £67 million was incurred related to the fundamental reorganization in Hotels.

The Group incurred £228 million of non-operating exceptional costs before tax associated with the Separation. The total cost of the Separation was £124 million. Of this figure, £4 million was charged in 2002 and £28 million related to bank facility fees that will be amortized to profit over the period of the facility. IHG’s share of the non-facility fee element of costs is £51 million, and of the facility fees is £13 million. A premium of £136 million was paid on the repayment of the Group’s EMTN loans and £250 million 10 3/8% 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.

Net Interest

During the 15 months ended December 31, 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 the issuance of €600 million Guaranteed Notes.

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

Taxation

Excluding the impact of exceptional items, the Group’s tax charge for the 15 months ended December 31, 2003 represented an effective rate of 10.8%, compared with 28.1% for the year ended September 30, 2002. The equivalent effective rate (excluding exceptional items) for IHG, excluding MAB, was 3.3% for the 15 months ended December 31, 2003 compared with 24.6% for the year ended September 30, 2002. The rates were substantially lower in 2003 due to the impact of provision releases relating to tax matters which were settled during the year or in respect of which the relevant statutory limitation period expired.

Excluding the effect of exceptional items and prior year items, the Group’s tax rate for the 15 months ended December 31, 2003 was 35.9% (35.8% for the year ended September 30, 2002). The equivalent rate excluding MAB was 36.5% for the 15 months ended December 31, 2003 and for the year ended September 30, 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.

Earnings and Dividends

Earnings per share for fiscal 2002 have 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.

For the 15 months ended December 31, 2003, earnings available for shareholders totaled £19 million, compared with £457 million for the year ended September 30, 2002. The equivalent earnings per share were 2.6p and 62.5p, respectively.

Earnings per share for the 15 months ended December 31, 2003 and the year ended 30 September 2002, adjusted to eliminate the distorting effect of exceptional items, were 48.4p and 51.4p, respectively. A reconciliation of actual to adjusted earnings per share is set out in Note 9 of Notes to the Financial Statements.

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 expected amount referred to in the 2002 Six Continents Annual Report on Form 20-F.

Cash flow and Capital Expenditure

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

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

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

Highlights for the 12 months ended December 31, 2003

The results for the period reflect activity for the 15 months ended December 31, 2003 including the discontinued operations of MAB for the period up until Separation. Given the scale of the events surrounding the Separation, the audited consolidated financial statements do not readily facilitate an understanding of the continuing operations of IHG on a stand alone basis. The Company has, therefore, prepared unaudited financial information which shows the results for the Group as if IHG had been independent and operating under the financing and taxation structure put in place at the time of the Separation for the 12 months ended December 31, 2003 and 2002. This financial information comprises the results of those businesses that form IHG following the Separation. Because of the nature of this financial information, it cannot give a complete picture of the financial position of the Group. The information is provided as guidance only and should not be viewed as a substitute for the audited consolidated financial statements; it is not audited. Significant changes were also made to the financing structure of the Group as part of the Separation, making the Group results difficult to compare year-on-year. The 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 October 1, 2001. The financial information has been prepared using accounting policies consistent with those used in the Group financial statements.

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Hotel results	12 months ended December 31 2003	2002	Change %
	(£ million)		
Turnover:			
Americas	525	569	(8)
EMEA	807	800	1
Asia Pacific	114	128	(11)
Central	41	41	—
	1,487	1,538	(3)
Operating profit before exceptional items:			
Americas	161	173	(7)
EMEA	92	120	(23)
Asia Pacific	12	26	(54)
Central	(65)	(80)	(19)
	200	239	(16)
Corporate recharges (1)	3	13	(77)
	203	252	(19)

(1) Corporate recharges totalled £3 million for the 12 months ended December 31, 2003 (£13 million for the 12 months ended December 31, 2002). These adjustments relate principally to charges to MAB and pension credits.

Turnover. Hotels turnover decreased £51 million (3.3%) from £1,538 million for the 12 months ended December 31, 2002, to £1,487 million for the 12 months ended December 31, 2003. While revenue rose £7 million (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%.

Operating profit. Hotels operating profit before exceptional items for the 12 months ended December 31, 2003 was £200 million, down 16.3% (12 months ended December 31, 2002 £239 million). 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. The weakening of the US dollar against sterling had a negative impact in the second half of the year in the Americas. In EMEA the owned and leased estate was negatively impacted by the combined effects of pre-opening costs, hotels opening towards the end of the period, and increased depreciation charges associated with prior year refurbishments. A reduction in overheads primarily driven from the reorganization review helped to offset some of the profit declines.

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Americas

	12 months ended December 31		
	2003	2002	Change %
	($ million)		
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 ($ million)	262	260	1
Sterling equivalent (£ million) (1)	161	173	(7)

(1) The results have been translated into pounds sterling at weighted average rates of exchange for the year. The translation rates are fiscal 2003: £1=$1.62 (2002: £1=$1.48).

Operating profit before exceptional items for the Americas region for the 12 months ended December 31, 2003 of $262 million, marginally ahead of 2002 ($260 million 12 months ended December 31, 2002). The weakening of the US dollar against sterling had a negative impact in the second half of the year on sterling reported results and the Americas finished the 12 months ended December 31, 2003 with operating profit before exceptional items in sterling of £161 million, down 7% from the 12 months ended December 31, 2002. Total Americas overheads including direct costs, were down 10%, with the separately disclosed regional overheads down 3% reflecting implementation of initiatives arising from the reorganization review.

RevPAR performance in the franchised estate finished the 12 months ended December 31, 2003 0.3% down from the prior year at $46.61. The war in Iraq in the first half of the year contributed to the decline. In the third and fourth quarters, as a result of an improvement in domestic travel, 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 the year. In July 2003, IHG sold 16 Staybridge Suites to HPT for $185 million, retaining management and branding.

Managed results include the full profit and loss account for certain properties where IHG is responsible for the underlying operations. 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 September, HPT converted 14 additional suite hotels to IHG’s Staybridge Suite brand and management.

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EMEA

	12 months ended December 31		
	2003	2002	Change %
	(£ million)		
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	92	120	(23)

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

Turnover in EMEA totalled £807 million for the 12 months ended December 31, 2003, an increase of £7 million on 2002. Owned and leased turnover grew by £7 million 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. EMEA operating profit before exceptional items totalled £92 million for the 12 months ended December 31, 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 £8 million to £22 million for the 12 months ended December 31, 2003 (£30 million for the 12 months ended December 31, 2002) as a result of the reorganization initiatives.

RevPAR in the region for the 12 months ended December 31, 2003 was 0.7% lower than the prior 12 months at $56.36. The trend in the first half of the year was similar to that experienced in the Americas, with trading primarily 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%, primarily driven by increased occupancy. 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 December 31, 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 overheads realized as part of the organizational review.

During the year the InterContinental Le Grand Paris reopened after a full refurbishment to position 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.

Asia Pacific

	12 months ended December 31		
	2003	**2002**	**Change %**
	($ million)		
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 ($ million)	19	39	(51)
Sterling equivalent (£ million) (1)	12	26	(54)

(1) The results have been translated into pounds sterling at weighted average rates of exchange for the year. The translation rates are fiscal 2003: £1=$1.62 (2002: £1=$1.48).

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 new 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. There are also 18 management agreements signed, but under development, which will extend IHG’s leadership in the key Greater China market.

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

Trading at the InterContinental Hong Kong fell sharply in March 2003 in connection with the outbreak of SARS, 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.

The region continues to explore innovative deal structures, and the Group 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.

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Central

	12 months ended December 31		
	2003	2002	Change %
	(£ million)		
Turnover	41	41	—
Gross central costs	(106)	(121)	(12)
Net central costs (£ million)	(65)	(80)	(19)
Dollar equivalent ($ million) (1)	(105)	(121)	(13)

(1) The results have been translated into US dollars at weighted average rates of exchange for the year. The translation rates are fiscal 2003: $1=£0.62 (2002: $1=£0.66).

Central overheads principally comprise the costs of global functions that were centralised following the reorganization review, reduced by Holidex fee income. The reduction in gross central costs from £121 million for the 12 months ended December 31, 2002 to £106 million for 2003, primarily reflects savings driven from the reorganization review.

Cash flow and Investment

Following the Separation, the Group undertook a detailed review of its owned and leased portfolio to identify opportunities to lower capital intensity. The Group’s strategy is that it will, in general, only own assets if they have strategic value or generate superior returns. The Group 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 program will involve the further sale of assets with a net book value of between £800 million and £1 billion. The scale and complexity of the program means that it will take some considerable time to complete and is subject to there being no significant adverse changes in market conditions.

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

In July 2003, the Group completed the sale of a 16 property Staybridge Suites portfolio to HPT, one of the largest US hotel real estate investment trusts, for $185 million. Investment had been made into the Staybridge Suites portfolio by the Group 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.

The Group’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 £115 million was completed in September 2003. With an alternative property in London, and with this property in need of refurbishment, IHG took the opportunity to reduce capital intensity in the business at a favorable price in excess of £400,000 per room.

In October 2003, IHG announced the acquisition of the Candlewood Suites brand in the US for $15 million 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 properties is HPT, which owned 64 properties 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 December 31, 2003.

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Soft Drinks

	12 months ended December 31		
	2003	2002	Change %
	(£ million)		
Turnover	674	611	10
Operating profit	83	68	22

Soft Drinks continues to grow its market share in a number of key segments in which it operates. In addition to a strong investment program in its key brands, Soft Drinks is also committed to an active new product development program, which has recently brought additional success to the business through its J_2O and Fruit Shoot brands. While this investment is driving top line revenue growth, Soft Drinks is also focused on effective cost and asset management to deliver an even higher level of earnings and Return on Capital Employed growth.

Turnover. As a result of favorable summer trading conditions the overall UK soft drinks market grew 8%. Soft Drinks turnover of £674 million was up 10% on the previous year. In the 12 months ended December 31, 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 J_2O, with both brands leading their respective market segments with volume growth in 2003 of 54% and 95%, respectively.

Operating profit. The business continued its focus on effective cost control, which along with the increase in turnover, contributed to an overall operating profit before exceptional items increase of 22% to £83 million for the 12 months ended December 31, 2003.

Cash flow and Investment

Operating cash flow for the 12 months ended December 31, 2003 was £71 million. Capital expenditure of £55 million for the 12 months ended December 31, 2003 was driven by expansionary investment in additional Fruit Shoot and J_2O production capacity, together with significant investment in a business transformation program. This, in addition to implementing new IT infrastructure, will significantly enhance operating efficiency.

Discontinued Operations – Mitchells and Butlers

The audited Group results for the 15 months ended December 31, 2003 includes MAB operations for the 28 weeks from October 1, 2002 until the Separation on April 15, 2003. For the year ended September 30, 2002 MAB results are included for the full fiscal year.

For the 28 weeks until Separation, turnover from MAB operations was £793 million, up 0.9% from the comparable period in the prior year (£786 million in the 28 weeks ended April 13, 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 28 week period in 2003 but within the 2002 trading period. MAB turnover for the year ended September 30, 2002 was £1,481 million.

MAB operating profit before exceptional items for the 28 weeks prior to the Separation was £137 million (£146 million in the 28 weeks ended April 13, 2002). Gross operating margins were maintained despite the different Easter period, 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 year ended September 30, 2002 was £289 million.

Operating cash flow generated by MAB was £152 million for the 28 weeks prior to the Separation (£72 million in the 28 weeks ended April 13, 2002). The improvement over the 28 weeks ended April 13, 2002 was attributable to a £64 million reduction in net capital expenditure and a favourable movement in working capital of £17 million. MAB operating cash flow for the year ended September 30, 2002 was £145 million.

Fiscal 2002 Compared with Fiscal 2001

Group

Total turnover fell by 10.4% from £4,033 million in fiscal 2001 to £3,615 million in fiscal 2002 (including turnover from MAB of £1,481 million compared to £1,560 million). Total operating profit before exceptional items of £618 million compared with £792 million in fiscal 2001 (including £289 million from MAB compared to £306 million in fiscal 2001). Profit before tax was £534 million in fiscal 2002, compared with £690 million in fiscal 2001; excluding exceptional items in both years, adjusted profit before tax was £558 million against £731 million in the previous year. Basic earnings per ordinary share was 62.5p compared with 60.6p in fiscal 2001; eliminating the impact of exceptional items, the adjusted earnings per ordinary share was 51.4p compared with 66.6p for fiscal 2001.

During fiscal 2002, Group turnover from continuing operations of £2,134 million fell by 13.7% on the previous year. Turnover in Hotels decreased 19.2% to £1,532 million in fiscal 2002. Soft Drinks turnover of £602 million was up 5.4% on fiscal 2001.

Operating profit from continuing operations and before exceptional items was £329 million against £486 million in fiscal 2001. Hotels operating profit before exceptional items was £262 million, down £165 million against fiscal 2001. Soft Drinks had a successful year with operating profit growth of over 10%.

The exceptional items before tax of £24 million included an operating exceptional item of £77 million and non-operating exceptional items totaling £53 million – see “Fiscal 2002 Compared with Fiscal 2001 – Exceptional Items” below. These operating and non-operating exceptional items have been excluded from the calculation of adjusted earnings per share.

Profit before tax was £534 million compared with £690 million in fiscal 2001; excluding exceptional items, profit before tax was £558 million against £733 million in the previous year. The taxation charge includes an exceptional credit of £114 million in respect of the release of over provisions for tax in respect of prior years, a charge of £10 million in relation to property disposals and a credit of £1 million in relation to Separation costs. Excluding the impact of exceptional items, the tax charge represented an effective tax rate of 28.1%, compared with (adjusted) 30.3% for fiscal 2001.

The Group operating cash inflow of £207 million was £91 million greater than in fiscal 2001. This increase was due to the reduced level of net capital expenditure for the Group’s continuing operations which reduced to £513 million from last year’s level of £868 million. Net debt at the end of the fiscal year amounted to £1,177 million, resulting in a balance sheet gearing ratio of 22.0%.

Hotels

It has not been possible to restate the fiscal 2001 hotels segmental information on a comparable basis to the fiscal 2003 and 2002 comparison above. Accordingly, to facilitate the comparison of fiscal 2002 with fiscal 2001 this section of the Operating and Financial Review and Prospects presents fiscal 2002 results on the basis of the 2001 presentation.

Turnover. Hotels turnover decreased by 17.0% from $2,726 million in fiscal 2001 to $2,262 million in fiscal 2002. Turnover comparisons to 2001 were distorted by two non-comparable items. First, the conversion of the Bristol hotels from operating leases to management contracts, effective in the main from July 1, 2001, and second, the inclusion of 12 months of turnover from the Posthouse business compared with only six months in fiscal 2001.

Operating profit. Operating profit before operating exceptional items fell to $387 million against $613 million in fiscal 2001 due to the full year impact of post September 11, 2001 trading and continued threat of terrorist activities and general economic downturn. In sterling terms, operating profit was £262 million against £427 million in 2001, a fall of 38.6%. The weighted average US dollar exchange rate to sterling for the year was $1.48 against $1.44 for fiscal 2001, which was marginally detrimental to the Group when its result was translated into sterling.

The operating mix of the varying business models (O&L, management contract and franchise) demonstrated some resilience to the difficult trading conditions, with the franchise and management contract income streams being less affected by the downturn than the O&L business. In the Americas, “drive versus fly” became a key factor in the face of reduced air travel, particularly in the first half of the year. The O&L estate saw a significant fall in operating profit, while the midscale franchise business operating profit was less affected. Upper upscale markets in major US cities suffered due to their dependence upon domestic and international airline travel, whereas the “drive to” midscale segment (where IHG’s franchise business is focused on Holiday Inn and Holiday Inn Express) performed better.

The decline in international travel also impacted EMEA and, in particular, those key air travel gateway cities where IHG’s upper upscale hotel properties are concentrated: London, Paris and Amsterdam. Asia Pacific was also adversely affected by the reduction in international travel.

Americas. The Americas system size grew by 81 hotels and 6,435 rooms to 2,604 hotels with 373,322 rooms at the end of fiscal 2002. The increase in the Holiday Inn Express franchise system continued with another 88 properties added in the year, which more than offset a reduction in Holiday Inn rooms. The extended-stay brand, Staybridge Suites, also continued its expansion, with 11 hotels added in the year. Total Americas operating profit was $264 million compared with $345 million in fiscal 2001, a 23% decline.

The Americas region was the hardest hit by the events of September 11, 2001. RevPAR for the first six months of fiscal 2002 fell by 23% for InterContinental, 21% for Crowne Plaza, 12.8% for Holiday Inn, 3.7% for Holiday Inn Express and 11.2% for Staybridge Suites. The remainder of the year saw an improvement in RevPAR, and resulted in RevPAR for the full year being down 15.0% from the prior year for InterContinental, 14.7% for Crowne Plaza, 7.8% for Holiday Inn, 1.7% for Holiday Inn Express and 2.5% for Staybridge Suites.

Performance of the O&L estate in the Americas is heavily dependent upon profits from the upscale hotel properties in key cities. For the full year, RevPAR for the nine comparable O&L InterContinental hotels was down 12.7% from the prior year, with occupancy 0.2 percentage points higher and average daily rates 13.0% lower. The refurbishments of the New York, Chicago, Miami and San Francisco InterContinental hotels were substantially completed during fiscal 2002.

Crowne Plaza’s O&L hotels were impacted principally by the reduction in business, meeting and conference travel, driven by general weakness in the economy. Crowne Plaza also underperformed its competitive set partly due to a lack of distribution relative to principal branded competition in its segment. As a result, Crowne Plaza O&L RevPAR fell by 13.8% for 2002. Overall, the Americas O&L business made an operating profit of $23 million against $78 million in fiscal 2001.

The overall size of the midscale franchise estate (over 2,000 franchised hotels for both Holiday Inn and Holiday Inn Express) and the resilience of the franchise model to economic slowdown, meant that the business was better able to weather the difficult trading conditions. Operating profit at $200 million was only 10.7% lower than in fiscal 2001. RevPAR for Holiday Inn and Holiday Inn Express was down 7.1% and 1.6% respectively.

Americas managed and upscale franchise operating profit of $41 million was $2 million lower than in fiscal 2001, reflecting the same economic difficulties that affected the O&L estate.

Europe, the Middle East and Africa. EMEA turnover grew by 9.2% to £819 million from £750 million in fiscal 2001. Fiscal 2002, however, included the full year benefit of the Posthouse business acquired in April 2001. Operating profit was £125 million versus £202 million in fiscal 2001. The US economic slowdown had a strong knock-on effect on European capital city hotels, particularly in London, where the reduction in both US business and leisure travel affected occupancy levels and RevPAR. Upscale properties in London, Paris, Frankfurt, Amsterdam and Rome were particularly affected by the reduced level of international travel following the events of September 11, 2001.

In the O&L estate, InterContinental RevPAR (excluding the Paris Le Grand InterContinental) was down by 14.4% on fiscal 2001. The Paris Le Grand InterContinental closed in December 2001 for major refurbishment, while the InterContinental Madrid completed its refurbishment program during fiscal 2002.

The Holiday Inn O&L estate included the full year impact of the Posthouse hotels acquired in 2001. In the United Kingdom, RevPAR for the estate on a comparable basis fell by 9.9% as a consequence of the tough trading conditions, particularly in London which saw RevPAR declines of 20.7% on last year, due to the performance of the airport and central London hotels.

In the rest of Europe, properties in key cities suffered through the downturn in international travel, as reflected in EMEA’s Holiday Inn O&L RevPAR, which fell by 9.5% against fiscal 2001. Similarly, Crowne Plaza O&L RevPAR in EMEA fell by 11.0%.

Overall, EMEA O&L hotels generated an operating profit of £98 million compared with £171 million in fiscal 2001. In order to drive revenue growth, the region continued to invest in marketing and targeted sales campaigns, particularly in the Holiday Inn UK business.