INTERCONTINENTAL HOTELS GROUP

Annual report and financial statements 2004

Financial highlights

Group operating profit up 17%.
Strong trading with Hotels operating profit up 26% from £200m to £251m in the year, up 36% on a constant currency basis.
Americas operating profit up 13% from $262m to $296m.
EMEA operating profit up 29% from £92m to £119m.
Asia Pacific operating profit up 105% from $19m to $39m.
Soft Drinks revenue up 5% from £674m to £706m.
Adjusted earnings per share grew by 56% to 32.5p.
Full year dividend raised by 6% from 13.5p to 14.3p per share.*
Significant hotel sales announced, totalling £1.75bn, out of total announced for disposal of £2.1bn. This is over 50% of total net book value of assets at time of Separation from Six Continents of £3.9bn.
Returns of funds to shareholders totalling £1bn announced in the year, with £767m returned to date.
Further £1bn return of funds announced, subject to capital restructuring and completion of disposals.
Refinancing of Group's existing bank facility with a new £1.6bn facility, lowering cost of borrowing and increasing financial flexibility.
Continued strong capital control. £257m spent in the year, down 27% on the £354m spent in 2003.

Note: Operating profit is shown before exceptional items; 2003 comparatives are unaudited pro forma figures for the 12 months ended 31 December 2003.

* Excluding special interim dividend paid in December 2004.

Contents

Operating and financial review

On 15 April 2003, following shareholder and regulatory approval, Six Continents PLC separated into two new groups, InterContinental Hotels Group PLC (IHG) comprising the Hotels and Soft Drinks businesses, and Mitchells & Butlers plc (MAB), comprising the Retail and Standard Commercial Property Development businesses (the Separation).

This operating and financial review provides a commentary on the performance of the Hotels and Soft Drinks businesses of InterContinental Hotels Group PLC (the Group) for the financial year ended 31 December 2004. To assist shareholders, unaudited pro forma comparatives for the 12 months ended 31 December 2003 are provided.

REPORTING BASIS

In 2003, in order to bring its financial reporting timetable into line with other major European and US hotel companies, IHG changed its financial year end from 30 September to 31 December. The statutory financial period covered by these financial statements is therefore the 12 months ended 31 December 2004, with comparatives for the 15 months ended 31 December 2003. The comparatives include the results of MAB up until the Separation.

GROUP RESULTS

IHG turnover for the 12 months ended 31 December 2004 was £2,204m compared with £2,161m for the 12 months ended 31 December 2003.

In the Hotels business all regions reported revenue and profit growth in US dollar terms as the hotel industry showed some recovery from the impact of global insecurity, Severe Acute Respiratory Syndrome (SARS) and depressed travel experienced in 2003. The relative strength of sterling against the US dollar (weighted average US dollar exchange rate to sterling for the year was $1.82 against $1.63 for 2003) converted a 13.0% growth in Hotels turnover expressed in US dollars to a 0.7% growth when expressed in sterling. If currency exchange rates had been the same in 2004 as in the 12 months ended 31 December 2003, Hotels turnover growth would have been 5.9%.

Soft Drinks turnover increased by 4.7% despite the summer of 2004 experiencing poorer weather than the very favourable summer conditions of 2003. This growth was boosted by 2004 including an extra week's trading, 2004 being a 53 week financial year for Soft Drinks.

IHG operating profit before exceptional items was £331m compared with £283m for the 12 months ended 31 December 2003. Hotels operating profit increased by 25.5% to £251m while Soft Drinks fell by £3m to £80m.

Exceptional items after tax netted to income of £68m and included an operating exceptional charge before tax of £19m and a non-operating exceptional charge before tax of £80m. Further details are given in Exceptional Items below.

Basic earnings per share for the 12 months ended 31 December 2004 was 42.1p (2.6p for the 15 months ended 31 December 2003). Adjusted earnings per share, after excluding the distorting effect of exceptional items, was 32.5p for the year, compared with 20.8p pro forma adjusted earnings per share for the 12 months ended 31 December 2003. Dividends for 2004 totalled 86.3p including a 72.0p special dividend paid in December 2004. In addition to the special dividend, in the 12 months ended 31 December 2004, IHG repurchased 46.4 million shares returning a further £255m to shareholders.

Operating and financial review

Summary Results	12 months ended 31 Dec 2004 Audited £m	12 months ended 31 Dec 2003* Unaudited £m	Actual currency change %	Constant currency change %	15 months ended 31 Dec 2003 Audited £m
Turnover:					
Hotels	**1,498**	1,487	0.7	5.9	1,870
Soft Drinks	**706**	674	4.7	4.7	820
IHG	**2,204**	2,161	2.0	5.6	2,690
MAB	**–**	–	–	–	793
Total	**2,204**	2,161	2.0	5.6	3,483
Operating profit before non-operating exceptional items:					
Hotels	**251**	200	25.5	36.1	251
Soft Drinks	**80**	83	(3.6)	(3.6)	95
Operating exceptional items – Hotels	**(19)**	–	–	–	(51)
IHG	**312**	283	10.2	17.0	295
MAB	**–**	–	–	–	137
Total	**312**	283	10.2	17.0	432
EBITDA†	**529**	481	10.0	16.0	786
Earnings per share (pence):					
Basic	**42.1p**	–	–	–	2.6p
Adjusted†	**32.5p**	20.8p	56.3	–	39.1p#

* The results for the 12 months ended 31 December 2003 are unaudited pro forma figures.

† Earnings before interest, tax, depreciation and amortisation (EBITDA) and adjusted earnings per share exclude all exceptional items.

\# Restated to show exceptional tax credits on a basis consistent with 2004.

GROUP STRATEGY

The Group continued to follow the clear strategy established on Separation. The key priorities of this strategy are:

- to strengthen the core business through focus on brand differentiation and system delivery;
- to grow the managed and franchised fee income business in key markets;
- to develop the organisation and its people;
- to continue the asset disposal programme; and
- to return funds to shareholders.

Specific activities in 2004 are discussed below under Asset Disposals, Return of Funds, Reorganisation and Refinancing of Group Debt.

ASSET DISPOSALS

During 2004, IHG continued the asset disposal programme commenced in 2003. Since Separation in April 2003, 121 hotels were sold for total proceeds of approximately £1.75bn.

On 17 December 2004, IHG announced the sale of 13 hotels, with 3,946 rooms in the United States, Puerto Rico and Canada, to Hospitality Properties Trust (HPT). Net proceeds totalled $425m, before transaction costs, equivalent to net book value. The transaction is expected to complete in the first quarter of 2005. IHG will continue to manage the hotels under a 25 year management contract with HPT. IHG has two consecutive options to extend the contracts for 15 years each, giving a total potential contract length of up to 55 years.

On 28 February 2005, IHG announced the acquisition by Strategic Hotel Capital, Inc. of 85% interests in two hotels in the United States. IHG will receive approximately $287m in cash before transaction costs, based upon a total value of $303.5m, $12m in excess of net book value. This transaction is expected to complete in the first half of 2005. IHG will continue to manage these hotels under a 20 year management contract with three options to extend for a further ten years each.

Of the 20 hotels in the Americas that were placed on the market in July 2004, five remain unsold. Progress on the disposal plans for these hotels is at varying stages.

On 10 March 2005, IHG announced the sale of 73 hotels in the United Kingdom to LRG Acquisition Limited, a consortium comprising Lehman Brothers Real Estate Partners, GIC Real Estate and Realstar Asset Management. Proceeds totalled £1.0bn before transaction costs, £22m below net book value. This transaction is expected to complete in the second quarter of 2005. IHG will continue to manage 63 of these hotels under a 20 year management contract with two consecutive options to extend the contract for a further five years each. The remaining ten hotels will be under a temporary management agreement with IHG.

With the transactions above and other smaller transactions since Separation in April 2003, IHG has sold or announced the sale of 121 hotels with proceeds of approximately £1.75bn and has on the market a further 16 hotels with a net book value of £0.4bn.

RETURN OF FUNDS

In March 2004 IHG announced an on-market share repurchase programme for £250m. By 20 December 2004 the programme was completed with, in total, 45.6 million shares repurchased at an average price of 548p per share.

In September 2004 IHG announced a further £750m return of funds to shareholders. A special dividend of £501m was paid to shareholders on 17 December 2004, followed by an associated share consolidation. A further £250m share repurchase programme commenced in December 2004, and by 31 December 2004 a further 0.8 million shares had been repurchased at an average price per share of 651p (total £5m). By 10 March 2005, a total of 2.5 million shares had been repurchased under the second repurchase programme at an average price per share of 647p (total £16m).

Following the announcement of the sale of 73 hotels in the United Kingdom, IHG intends to return a further £1bn to shareholders. This will require a capital restructuring to enable the release of funds arising from the receipt of disposal proceeds, details of which will be contained in a circular to shareholders in due course. Subject to receipt of shareholder approval, completion of disposal transactions and there being no material adverse change in market conditions, it is planned to complete the restructuring by the end of June 2005 and to return funds to shareholders as soon as practicable thereafter.

REORGANISATION

A fundamental review of the organisation of IHG was completed early in 2003. By December 2004 the planned changes had been implemented. It was originally anticipated that the reorganisation would deliver annualised savings by December 2004 of $100m against the budgeted 2003 base. Actual savings against the 2003 base, delivered by the end of December 2004, were estimated to be $120m.

Operating and financial review

Hotels Results	12 months ended 31 Dec 2004 £m	12 months ended 31 Dec 2003* £m	12 months ended Change %	3 months ended 31 Mar 2004 £m	3 months ended 30 June 2004 £m	3 months ended 30 Sept 2004 £m	3 months ended 31 Dec 2004 £m	3 months ended* 31 Mar 2003 £m	3 months ended* 30 June 2003 £m	3 months ended* 30 Sept 2003 £m	3 months ended* 31 Dec 2003 £m
Turnover:											
Americas	**495**	525	(5.7)	115	131	125	124	127	139	133	126
EMEA	**829**	807	2.7	190	214	212	213	175	198	217	217
Asia Pacific	**134**	114	17.5	33	31	31	39	29	19	28	38
Central	**40**	41	(2.4)	10	11	9	10	10	11	9	11
	1,498	1,487	0.7	348	387	377	386	341	367	387	392
Operating profit before exceptional items:											
Americas	**163**	161	1.2	32	48	46	37	32	50	47	32
EMEA	**119**	92	29.3	16	34	34	35	13	19	36	24
Asia Pacific	**21**	12	75.0	6	3	5	7	4	(3)	3	8
Central	**(52)**	(65)	(20.0)	(10)	(16)	(9)	(17)	(20)	(20)	(10)	(15)
	251	200	25.5	44	69	76	62	29	46	76	49

* Unaudited pro forma results, see page 12.

HOTELS

Performance

Following a difficult 2003 which saw the lead-up to and outbreak of war in Iraq, SARS, and depressed global travel, the global hotel industry experienced some recovery in 2004. IHG experienced significantly improved performance in North America, Asia Pacific and the United Kingdom although parts of Continental Europe continued to be weak.

Hotels turnover increased by 0.7% in sterling terms but this was impacted by the sterling to US dollar exchange rate. Expressed in US dollars, turnover grew by 13.0% with particularly strong growth in the United Kingdom, the Middle East and Asia Pacific.

Hotels operating profit before exceptional items was £251m, an increase of 25.5% on the pro forma figure for the 12 months ended 31 December 2003. Again, there was significant overall growth in US dollar terms in Europe, Middle East and Africa (EMEA) (up by 45%) and Asia Pacific (up by 105%). At constant currency exchange rates, Hotels operating profit before exceptional items increased by 36%.

Scale

The number of hotels in the IHG system increased by a net 20 hotels during 2004 whilst the number of rooms fell by 2,116. This was a result of the continuing trend of adding Holiday Inn Express hotels to the system (a net increase of 57 hotels with 5,737 rooms), whilst Holiday Inns continued to leave the system primarily as a result of IHG initiated action against poor owners or quality issues. During 2004 a net 45 Holiday Inns with 8,982 rooms left the system, of which 35 hotels with 7,889 rooms were in the Americas.

The trend in hotel room additions is encouraging and the focus remains on driving net growth in the total system. At the gross level, 188 hotels with 24,138 rooms were added to the system during 2004, and the pipeline of hotels signed and waiting to enter the system at 31 December 2004 was 673 hotels with 82,897 rooms, up from 544 hotels with 71,226 rooms a year previously.

Reservation Systems and Priority Club Rewards

IHG continued to leverage its global reservation systems and global loyalty programme. In 2004, over $4.0bn of room revenue was delivered through IHG's reservation channels, a 23% increase on 2003, and this represented 38% of total system rooms revenue, an increase of 2.2 percentage points on the previous 12 months.

Internet channel bookings increased, with revenue growth over 2003 of 44%. Approximately 13% of total IHG system room revenue is sold via the internet, with an increasing proportion now booked on IHG websites (81% in 2004 against 77% in 2003).

IHG made significant progress during 2004 in establishing standards for working with third-party intermediaries – on-line travel distributors – who sell or re-sell IHG hotel rooms via their internet sites. Under the IHG standard, certified distributors are required to respect IHG's trademarks, ensure reservations are guaranteed through an automated and common confirmation process, and clearly present fees to customers. By the end of 2004, IHG had certified over 200 third-party distributors including Travelocity, Travelocity Business and Priceline.

IHG's loyalty programme, Priority Club Rewards, continued to grow with 23.7 million members at 31 December 2004, an increase of 23% on the previous year. Revenue generated from Priority Club Rewards members was 18.0% higher than in 2003 and represented 30% of IHG total system room revenue.

FIGURE 1

	Hotels		Rooms	
Total system size at 31 December 2004	**2004**	Change over 2003	**2004**	Change over 2003
Analysed by brand:				
InterContinental	**132**	(3)	**44,516**	(530)
Crowne Plaza	**215**	13	**61,627**	3,145
Holiday Inn	**1,484**	(45)	**278,787**	(8,982)
Holiday Inn Express	**1,512**	57	**126,035**	5,737
Staybridge Suites	**79**	8	**9,189**	968
Candlewood Suites	**109**	–	**12,407**	(162)
Other brands	**9**	(10)	**1,641**	(2,292)
Total	**3,540**	20	**534,202**	(2,116)
Analysed by ownership type:				
Owned and leased	**166**	(5)	**38,420**	(1,039)
Managed	**403**	(20)	**98,953**	(4,487)
Franchised	**2,971**	45	**396,829**	3,410
Total	**3,540**	20	**534,202**	(2,116)

Operating and financial review

Americas Results		31 Dec 2004 $m	31 Dec 2003 $m	Change %
		12 months ended		
Turnover:				
Owned and leased		**490**	481	1.9
Managed		**55**	46	19.6
Franchised		**357**	327	9.2
		902	854	5.6
Operating profit before exceptional items:				
Owned and leased		**39**	32	21.9
Managed		**12**	7	71.4
Franchised		**304**	279	9.0
		355	318	11.6
Regional overheads		**(59)**	(56)	5.4
Total	$m	**296**	262	13.0
Sterling equivalent	£m	**163**	161	1.2

FIGURE 2

Americas system size at 31 December 2004	Hotels 2004	Hotels Change over 2003	Rooms 2004	Rooms Change over 2003
Analysed by brand:				
InterContinental	**44**	(2)	**15,088**	14
Crowne Plaza	**116**	10	**33,645**	2,410
Holiday Inn	**1,074**	(35)	**205,500**	(7,889)
Holiday Inn Express	**1,357**	36	**109,882**	3,086
Staybridge Suites	**79**	8	**9,189**	968
Candlewood Suites	**109**	–	**12,407**	(162)
Other brands	**4**	(2)	**616**	(605)
Total	**2,783**	15	**386,327**	(2,178)
Analysed by ownership type:				
Owned and leased	**28**	–	**9,842**	(28)
Managed	**205**	(17)	**43,328**	(4,383)
Franchised	**2,550**	32	**333,157**	2,233
Total	**2,783**	15	**386,327**	(2,178)
Analysed by geography:				
United States	**2,496**	(34)	**333,590**	(12,378)
Rest of Americas	**287**	49	**52,737**	10,200
Total	**2,783**	15	**386,327**	(2,178)

FIGURE 3

Americas RevPAR movement on previous year	12 months ended 31 Dec 2004
InterContinental Owned and leased (comparable)	**8.1%**
Holiday Inn Franchised	**5.0%**
Holiday Inn Express Franchised	**7.1%**

Americas

The largest profit generating stream in the Americas is the franchised business, with 2,550 hotels and 333,157 rooms. Operating profit increased from $279m in 2003 to $304m in 2004, a 9.0% increase. All brands posted strong revenue per available room (RevPAR) growth over 2003, with Holiday Inn 5.0% up, Holiday Inn Express 7.1% up, Crowne Plaza 4.5% up and Staybridge Suites 11.3% up.

In the owned and leased estate, strong growth in trading, particularly at the InterContinental hotels in New York and Chicago, resulted in operating profit growth of $7m to $39m in 2004. Comparable owned and leased RevPAR saw strong growth on 2003; InterContinental was up by 8.1%, Crowne Plaza by 6.9% and Holiday Inn by 5.6%. In April 2004 the InterContinental Central Park (New York) was sold, and in November 2004 the InterContinental Buckhead, Atlanta, a newly built hotel, was opened.

Managed operating profit increased from $7m in 2003 to $12m in 2004 with all brands experiencing strong RevPAR growth on 2003. The manager-owner relationship with HPT strengthened during the year as agreement was reached for HPT to purchase a further 13 hotels from IHG with long-term contracts for IHG to manage the hotels under IHG brands. Following completion of this transaction, 119 hotels owned by HPT are managed by IHG.

Americas regional overheads increased marginally, principally as a result of specific strategic initiatives and bonus payments.

Total Americas operating profit was $296m, a 13.0% increase on the pro forma operating profit for the 12 months ended 31 December 2003 of $262m. The weakness of the US dollar to sterling meant that in sterling terms, Americas operating profit was £163m, 1.2% up on 2003.

Europe, Middle East and Africa (EMEA)

Turnover for EMEA for 2004 was £829m, £22m higher than for the 12 months ended 31 December 2003. Owned and leased turnover grew by £13m despite the loss of £42m turnover compared to 2003 as a result of hotels being sold.

Trading conditions across the region varied; UK hotels experienced strong growth in RevPAR throughout the year and the performance in the Middle East and Africa business was strong. Continental Europe was more mixed with Paris in particular slower to recover from the adverse conditions in 2003.

In the owned and leased estate, RevPAR in the United Kingdom Holiday Inn estate continued to grow over previous periods. For the year Holiday Inn UK RevPAR was up by 8.0% over 2003. London hotels in particular experienced strong growth in RevPAR over 2003 (up by 16.0%) as they were slower to recover than the UK regional hotels which had seen some recovery from mid-2003. Holiday Inn UK regional hotel RevPAR was up by 4.7%.

InterContinental owned and leased RevPAR on a comparable basis was 1.0% up on 2003. InterContinental owned and leased turnover and operating profit was boosted by a full year's trading from the InterContinental Le Grand Paris, which was closed for refurbishment for part of 2003. Owned and leased operating profit finished £20m ahead of 2003 with the InterContinental Le Grand Paris contributing £12m of the increase.

Managed operating profit in EMEA rose by £5m to £24m. This was driven by hotels in the Middle East where over half of EMEA's managed hotels are located. Overall, Middle East managed RevPAR increased by 8.8% for InterContinental, 8.8% for Crowne Plaza and 6.4% for Holiday Inn. Liquidated damages of approximately £4m were received from the early termination of the management contract for the InterContinental Barcelona.

Overall EMEA franchise RevPAR was 6.1% up on 2003 and there was a net increase in system size of 13 hotels. As a result, EMEA franchise operating profit was £3m ahead of 2003 at £21m.

Total EMEA regional overheads increased by £1m, reflecting the benefits of the reorganisation, partly offset by bonus awards for 2004.

During the year, a number of UK hotels were sold, including the Crowne Plaza Manchester Midland, Holiday Inn Teeside, Holiday Inn Sheffield West, Holiday Inn Crawley and the Holiday Inn Preston.

		12 months ended		
EMEA Results		**31 Dec 2004 £m**	31 Dec 2003 £m	Change %
Turnover:				
Owned and leased		**759**	746	1.7
Managed		**43**	38	13.2
Franchised		**27**	23	17.4
		829	807	2.7
Operating profit before exceptional items:				
Owned and leased		**97**	77	26.0
Managed		**24**	19	26.3
Franchised		**21**	18	16.7
		142	114	24.6
Regional overheads		**(23)**	(22)	4.5
Total	£m	**119**	92	29.3
Dollar equivalent	$m	**216**	149	45.0

FIGURE 4

EMEA system size at 31 December 2004	Hotels **2004**	Hotels Change over 2003	Rooms **2004**	Rooms Change over 2003
Analysed by brand:				
InterContinental	**62**	(1)	**20,292**	(550)
Crowne Plaza	**63**	1	**15,747**	58
Holiday Inn	**329**	(11)	**53,568**	(1,429)
Holiday Inn Express	**153**	21	**15,921**	2,651
Other brands	**1**	(2)	**222**	(788)
Total	**608**	8	**105,750**	(58)
Analysed by ownership type:				
Owned and leased	**126**	(3)	**25,570**	(748)
Managed	**99**	(2)	**24,921**	(562)
Franchised	**383**	13	**55,259**	1,252
Total	**608**	8	**105,750**	(58)
Analysed by geography:				
United Kingdom	**209**	5	**28,865**	(188)
Rest of Europe	**283**	3	**48,526**	(269)
Middle East and Africa	**116**	–	**28,359**	399
Total	**608**	8	**105,750**	(58)

FIGURE 5

EMEA RevPAR movement on previous year (comparable)	**12 months ended 31 Dec 2004**
InterContinental Owned and leased	**1.0%**
Crowne Plaza Owned and leased	**4.9%**
Holiday Inn UK London	**16.0%**
Holiday Inn UK Region	**4.7%**

Operating and financial review

Asia Pacific Results		12 months ended 31 Dec 2004 $m	31 Dec 2003 $m	Change %
Turnover:				
Owned and leased		**201**	154	30.5
Managed		**38**	26	46.2
Franchised		**5**	5	–
		244	185	31.9
Operating profit before exceptional items:				
Owned and leased		**31**	18	72.2
Managed		**25**	15	66.7
Franchised		**3**	4	(25.0)
		59	37	59.5
Regional overheads		**(20)**	(18)	11.1
Total	$m	**39**	19	105.3
Sterling equivalent	£m	**21**	12	75.0

FIGURE 6

Asia Pacific system size at 31 December 2004	Hotels 2004	Hotels Change over 2003	Rooms 2004	Rooms Change over 2003
Analysed by brand:				
InterContinental	**26**	–	**9,136**	6
Crowne Plaza	**36**	2	**12,235**	677
Holiday Inn	**81**	1	**19,719**	336
Holiday Inn Express	**2**	–	**232**	–
Other brands	**4**	(6)	**803**	(899)
Total	**149**	(3)	**42,125**	120
Analysed by ownership type:				
Owned and leased	**12**	(2)	**3,008**	(263)
Managed	**99**	(1)	**30,704**	458
Franchised	**38**	–	**8,413**	(75)
Total	**149**	(3)	**42,125**	120
Analysed by geography:				
Australia, New Zealand, South Pacific	**44**	(5)	**9,650**	(646)
Greater China	**44**	–	**16,222**	(41)
Rest of Asia Pacific	**61**	2	**16,253**	807
Total	**149**	(3)	**42,125**	120

Asia Pacific

Asia Pacific's results improved significantly in 2004 as the region made a recovery from the negative impacts in 2003 of the war in Iraq, SARS and the terrorist bombing in Bali.

Turnover grew by 32% to $244m with a significant increase in both owned and leased turnover (up by $47m) and managed turnover (up by $12m).

The owned and leased estate operating profit grew by $13m to $31m with a significant contribution from the InterContinental Hong Kong. RevPAR at the InterContinental Hong Kong increased by over 50% on 2003 and, with high operational gearing, this led to a substantially improved profit. In the last quarter of the year the hotel was running at an occupancy of over 85% and RevPAR was up by 29% over 2003. In total, owned and leased RevPAR across the region was up by 47%.

Asia Pacific managed hotel RevPAR also increased in comparison with 2003; InterContinental increased by 18%, Crowne Plaza by 23% and Holiday Inn by 24%. Operating profit increased by $10m to $25m.

Asia Pacific regional overheads were $2m higher than 2003, principally as a result of infrastructure costs to support further planned expansion in Greater China. In addition to the 44 IHG hotels already open and operating in Greater China, there are another 53 management agreements signed or under negotiation which will increase IHG's presence and leadership in the China hotel market.

In the year, the Holiday Inn Newcastle and the Holiday Inn Adelaide were sold with proceeds being broadly in line with net book value.

Central

Central support function costs totalled £52m in 2004, £13m down on 2003. The reduction primarily reflects the continued drive to reduce overhead costs. US dollar denominated costs also benefited from being converted at a weaker US dollar to sterling exchange rate.

Regional and central overheads were flat year on year, reflecting significant savings achieved given inflationary pressures, new initiatives and the payment of bonuses in 2004. EMEA overheads expressed in US dollars were 16.7% higher than 2003 primarily due to the impact of exchange rates; in sterling, the increase was 4.5%. Including regional costs charged directly to income streams, total gross overheads were 2.0% below 2003 levels when compared at constant exchange rates.

		12 months ended		
Central		**31 Dec 2004 £m**	31 Dec 2003 £m	Change %
Turnover		**40**	41	(2.4)
Gross central costs		**(92)**	(106)	(13.2)
Net central costs	£m	**(52)**	(65)	(20.0)
Dollar equivalent	$m	**(93)**	(105)	(11.4)

	12 months ended		
Overheads	**31 Dec 2004 $m**	31 Dec 2003 $m	Change %
Americas	**59**	56	5.4
EMEA	**42**	36	16.7
Asia Pacific	**20**	18	11.1
Net Central	**93**	105	(11.4)
Central and Regional overheads	**214**	215	(0.5)

SOFT DRINKS

Strategy

In March 2004, Soft Drinks secured a new long-term Exclusive Bottling Agreement (EBA) with PepsiCo Inc. This agreement is for 15 years and will automatically be extended for a further five years on an Initial Public Offering of the business. As part of the EBA, the shareholding of Britannia Soft Drinks Ltd (BSD) was restructured with IHG's direct shareholding being reduced to 47.5% whilst its interest in the total business remained unchanged; IHG continues to control and consolidate the results of BSD. The shareholders in BSD also agreed to consider an Initial Public Offering of BSD between 1 January 2005 and 31 December 2008 if market conditions are suitable.

Soft Drinks continued to invest in its key brands and in new product innovation. During 2004, BSD acquired the Ben Shaw's water business, further increasing BSD's presence in the UK's expanding water market and providing additional capacity.

Performance

Soft Drinks turnover increased by 4.7% to £706m, a strong performance against a 2003 result that benefited from a particularly favourable summer. Volume growth was 1.5% with strong growth in on-premise volume up 7.3%, driven by account gains during the year. Soft Drinks increased its share of the take-home market although volumes were lower as the market volume fell below 2003. Pepsi achieved a take-home cola market share of 20%. Turnover growth benefited from an extra week's trading; 2004 included 53 weeks' trading compared with 52 weeks in 2003.

Operating profit for Soft Drinks was £80m, £3m down on 2003. Operating profit in 2003, however, was boosted by an estimated £5m from the exceptionally good summer weather. Although 2004 operating profit benefited from an extra week's trading, incremental costs associated with a move to a more standalone basis, additional depreciation, increased pension costs and continued investment both in brand support and infrastructure costs, left profit £3m down on last year.

Operating cash flow for Soft Drinks was £73m compared with £71m for the 12 months ended 31 December 2003. Net capital expenditure was £70m against £55m in 2003 with significant expenditure on a Business Transformation Programme.

	12 months ended		
Soft Drinks	**31 Dec 2004 £m**	31 Dec 2003 £m	Change %
Turnover	**706**	674	4.7
Operating profit before exceptional items	**80**	83	(3.6)
EBITDA	**128**	124	3.2

Operating and financial review

EXCEPTIONAL ITEMS

Following a review of the hotel estate, tangible fixed assets have been written down by £48m; £28m has been charged as an operating exceptional item and £20m reverses previous revaluation gains.

Other operating exceptional items included a charge of £11m related to the delivery of the further restructuring of the Hotels business in conjunction with the asset disposal programme, and other operating income of £20m relating to the adjustment to market valuation of the Group's investment in FelCor Lodging Trust Inc.

Non-operating exceptional items included a profit of £15m realised on the sale of hotels, a £74m provision for loss on disposal of assets in the Americas and the United Kingdom and a £10m provision against the value of certain fixed asset investments.

Non-operating exceptional items also included a net exceptional interest charge of £11m. This related mainly to refinancing costs, including the premium paid on the repurchase of the Group's 2010 €600m Eurobonds of £17m, net of exceptional interest income which included £14m received on tax refunds.

The release of provisions relating to tax matters which were settled during the year or in respect of which the relevant statutory limitation period has expired, the recognition of deferred tax assets in respect of losses, and tax on the current year exceptional items has resulted in an exceptional tax credit of £167m.

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

REFINANCING OF GROUP DEBT

In November 2004 the Group refinanced its existing bank facility with a new £1.6bn facility. The new facility comprises a £1.1bn five year tranche and a £0.5bn 364 day tranche with an option to extend for one year. As part of this refinancing exercise the Group repurchased its euro and sterling denominated bonds.

INTEREST

The net interest charge for the year (pre-exceptionals) was £22m compared to a £39m pro forma interest charge for the 12 months ended 31 December 2003. The reduction was principally due to lower average debt levels and the weaker US dollar. The exceptional interest charge totalled £11m as analysed in Exceptional Items.

TAXATION

The tax charge on ordinary activities excluding exceptional items was 16% for 2004. The equivalent effective rate for the IHG Group excluding MAB was 24% for the 15 months ended 31 December 2003, following restatement in respect of exceptional tax credits on a basis consistent with 2004. Net tax paid in the 12 months ended 31 December 2004 reflected tax repayments received during the period and the impact of exceptional costs.

Excluding the effect of exceptional items and prior year items, the Group's tax rate for the 12 months ended 31 December 2004 was 36%. The equivalent for the IHG Group was 37% for the 15 months ended 31 December 2003. The difference from the UK statutory rate of 30% arose primarily due to overseas profits being taxed at rates higher than the UK statutory rate.

CAPITAL EXPENDITURE AND CASH FLOW

IHG's operating cash flow for 2004 was £364m compared with £411m for the 12 months ended 31 December 2003 (pro forma). Net capital expenditure was £151m, including £257m capital additions and £106m disposal proceeds, principally from the sale of hotels. Hotels gross capital expenditure was £187m, lower than expected as £38m was deferred until 2005 following delays in the timing of some projects. Major items of expenditure in 2004 included the InterContinental Buckhead, Atlanta, refurbishment expenditure on the Holiday Inn UK estate and refurbishment expenditure on the InterContinental hotels in London, Cannes and Frankfurt.

Net interest paid was £41m, and tax payments totalled £35m. Dividend payments totalled £626m including the special dividend paid in December 2004. The repurchase of shares totalled £257m.

EARNINGS AND DIVIDEND

Basic earnings per share for the year was 42.1p. Adjusted earnings per share, removing the distorting effect of exceptional items, was 32.5p compared with a pro forma figure for the 12 months ended 31 December 2003 of 20.8p. This represents an increase of over 50%.

The Board has proposed a final dividend per share of 10.0p; with the interim dividend of 4.3p, the normal dividend for the year totalled 14.3p. A special dividend of 72.0p was paid in December 2004.

SHARE PRICE AND MARKET CAPITALISATION

The share price in 2004 fluctuated between 479.17p and 690.81p and closed at 647.50p on 31 December 2004. This compares with the share price immediately following the Separation in April 2003 of 372.55p.

At 31 December 2004, the market capitalisation of IHG was £4.03bn.

TREASURY MANAGEMENT

Treasury policy is to manage financial risks that arise in relation to underlying business needs. The activities of the treasury function are carried out in accordance with Board approved policies and are subject to regular internal audit.

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

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

Movements in foreign exchange rates, particularly the US dollar and euro, can affect the Group's reported profit, net assets 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.

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 interest rate swaps and options and forward rate agreements.

Based on the year end net debt position (figure 8), 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 would increase the net interest charge by approximately £2m, whilst a one percentage point rise in euro interest rates would increase the net interest charge by £6m.

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.

FIGURE 7

Interest risk profile of gross debt for major currencies	31 Dec 2004 %	31 Dec 2003 %
At fixed rates	**27**	59
At variable rates	**73**	41

FIGURE 8

Net debt	31 Dec 2004 £m	31 Dec 2003 £m
Borrowings:		
Sterling	**247**	24
US Dollar	**335**	952
Euro	**799**	772
Australian Dollar	**86**	77
Hong Kong Dollar	**69**	84
Other	**2**	26
Cash and current asset investments	**(422)**	(1,366)
Total	**1,116**	569

Note: all shown after the effect of currency swaps.

FIGURE 9

Facilities	31 Dec 2004 £m	31 Dec 2003 £m
Committed	**1,697**	962
Uncommitted	**64**	80
Total	**1,761**	1,042

Operating and financial review

Medium and long-term borrowing requirements at 31 December 2004 were met through the syndicated bank facilities. Short-term borrowing requirements are principally met from drawing under bilateral bank facilities.

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

The Group is in compliance 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.

In September 2004 the Group announced its intention to continue its share repurchase programme into 2005 for a further £250m. The precise timing of purchases will be dependent upon, amongst other things, market conditions. Purchases have commenced under the existing authority from shareholders which will be renewed at the Annual General Meeting. Any shares repurchased under this programme will be cancelled.

ACCOUNTING POLICIES

The financial statements have been prepared using accounting policies unchanged from the previous year.

The Group will be required to produce its first set of audited financial statements in line with International Financial Reporting Standards (IFRS) for the year ending 31 December 2005. This will require an opening balance sheet to be prepared under IFRS as at 1 January 2004, and a full profit and loss account, balance sheet and cash flow statement for the year ended 31 December 2004 for comparative purposes.

The transition to IFRS reporting will result in a number of changes in the reported financial statements, notes thereto and accounting principles (see details in 'International financial reporting information' on pages 14-21).

PENSIONS

IHG operates three main schemes; the InterContinental Hotels UK Pension Plan, the Britvic Pension Plan, and the US based InterContinental Hotels Pension Plan.

The InterContinental Hotels UK Pension Plan and the Britvic Pension Plan were both established with effect from 1 April 2003. On a Financial Reporting Standard (FRS) 17 'Retirement Benefits' basis, at 31 December 2004 the Plans had a deficit of £20m and £108m respectively. In October 2004 £51m was paid into the InterContinental Hotels UK Pension Plan, whilst £1m was paid into the Britvic Pension Plan in January 2004. The defined benefits sections of both these Plans are generally closed to new members.

The US based InterContinental Hotels Plan is closed to new members and pensionable service no longer accrues for current employee members. On an FRS 17 basis, at 31 December 2004 the Plan had a deficit of $19m.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

Following shareholder and regulatory approval, on 15 April 2003, Six Continents PLC separated into two new groups, InterContinental Hotels Group PLC comprising the Hotels and Soft Drinks businesses, and Mitchells & Butlers plc comprising the Retail and Standard Commercial Property Developments businesses. As a result of the Separation, Six Continents PLC became part of IHG.

The pro forma financial information for the 12 months ended 31 December 2003 comprises the results of those companies that form IHG following the Separation, as if IHG had been in existence since 1 October 2001. The information is provided as guidance only; it is not audited and, as pro forma information, it does not give a full picture of the financial position of the Group. The key assumptions used in the preparation of the information are as follows:

i. The pro forma information has been prepared using accounting policies consistent with those used in the historic IHG interim and year end financial statements.

ii. Pro forma interest has been calculated to reflect the post Separation capital structure of the Group as if it had been in place at 1 October 2001, using interest rate differentials applicable under the post Separation borrowing agreements and excluding facility fee amortisation. Dividend payments have been assumed at the expected ongoing level.

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

iv. Adjustments have been made, where appropriate, to exclude any arrangements with the Mitchells & Butlers Group.

v. Pro forma earnings per share is based on pro forma profit available for shareholders divided by 734 million shares, being the issued share capital of IHG on Separation.

PROFIT AND LOSS ACCOUNT	12 months ended 31 Dec 2004 Audited £m	31 Dec 2003* Unaudited £m
Turnover – continuing operations	**2,204**	2,161
Cost of sales	**(1,652)**	(1,659)
Gross operating profit	**552**	502
Administrative expenses	**(221)**	(219)
Operating profit	**331**	283
Net interest charge	**(22)**	(39)
Profit on ordinary activities before taxation	**309**	244
Tax on profit on ordinary activities	**(50)**	(61)
Profit on ordinary activities after taxation	**259**	183
Minority equity interests	**(28)**	(30)
Retained profit for the period	**231**	153
Adjusted earnings per ordinary share	**32.5p**	20.8p

OPERATING CASH FLOW		
Operating profit	**331**	283
Depreciation and amortisation	**198**	198
Earnings before interest, taxation, depreciation and amortisation	**529**	481
Decrease/(increase) in stocks	**1**	(2)
Increase in debtors	**(11)**	(19)
Increase in creditors	**75**	61
Special pension contributions	**(71)**	–
Provisions expended and non-cash items	**(8)**	(10)
Operating activities	**515**	511
Capital expenditure – Hotels	**(187)**	(299)
Disposal proceeds	**106**	254
Capital expenditure – Soft Drinks	**(70)**	(55)
Operating cash flow	**364**	411

The above statements exclude all exceptional items as being non-recurring.

* Pro forma results, see page 12.

International financial reporting information

The Group will be required to produce its first set of audited financial statements in line with International Financial Reporting Standards ('IFRS') for the year ending 31 December 2005. This will require an opening balance sheet to be prepared under IFRS as at 1 January 2004, and a full profit and loss account, balance sheet and cash flow statement for the year ended 31 December 2004 for comparative purposes.

The transition to IFRS reporting will result in a number of changes in the presentation of reported financial statements, notes thereto and accounting principles.

Historically, the Group financial statements have been prepared in accordance with accounting principles generally accepted in the United Kingdom (UK GAAP). The following explanatory notes and reconciliations describe the differences between IFRS and UK GAAP reporting for the financial year 2004 as well as for the IFRS opening balance sheet at 1 January 2004. The comparative figures are presented in accordance with UK GAAP, and are identical to the full year information disclosed previously.

The following financial information should be read in conjunction with 'IFRS accounting policies' below which describe the IFRS policies followed by the Group.

The effects of the transition are explained on the following pages which include balance sheet reconciliations at the date of transition and at 31 December 2004 and a reconciliation of the profit and loss account for the year ending 31 December 2004.

IFRS accounting policies

BASIS OF ACCOUNTING

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements are prepared on an historic cost basis, except for certain items of property, plant and equipment held at deemed cost under the transitional rules of IFRS.

The principle IFRS accounting policies of the Group are set out below.

FIRST TIME ADOPTION OF IFRS

The Group has adopted IFRS from 1 January 2004 ('date of transition') with the exception of IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement', which are adopted with effect from 1 January 2005 in accordance with the requirements of IFRS 1 'First-time Adoption of International Financial Reporting Standards'.

In accordance with IFRS 1, the Group is entitled to a number of voluntary and mandatory exemptions from full restatement, which have been adopted as follows:

Business combinations The basis of accounting for pre-transition combinations under UK GAAP has not been revisited. The initial carrying amount of assets and liabilities acquired in such business combinations is deemed to be equivalent to cost.

Property, plant and equipment The Group has elected to retain UK GAAP carrying values of freehold and leasehold hotels including revaluations as deemed cost at transition.

Employee benefits The cumulative actuarial gains and losses on defined benefit pension schemes and similar post-retirement benefits at transition date have been recognised in full in equity.

Foreign currencies The Group has elected not to recognise separately cumulative foreign exchange movements up to the transition date, and from 1 January 2004 onwards, to recognise foreign exchange differences on the retranslation of foreign subsidiaries in a separate reserve within equity.

Share-based payments IFRS 2 'Share-based Payment' has been applied to all grants of equity instruments after 7 November 2002 that had not vested at 1 January 2005.

NEW ACCOUNTING POLICIES

The Group has adopted the transitional requirements of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' and IFRS 2 'Share-based Payment' from 1 January 2004.

BASIS OF CONSOLIDATION

The Group financial statements comprise the financial statements of the Company and entities controlled by the Company.

The results of those businesses acquired or disposed of are consolidated for the period during which they were under the Group's control.

INVESTMENT IN ASSOCIATES

An associate is an entity over which the Group has the ability to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the entity.

Associates are accounted for using the equity method, unless the investment is held for sale (see below). Using the equity method, the Group's investment is recorded at cost adjusted by the Group's share of post acquisition profits and losses.

ASSETS HELD FOR SALE

Assets and liabilities are classified as held for sale when their carrying amount will be recovered principally through a sale transaction, rather than continuing use, and a sale is highly probable.

Assets designated as held for sale are held at the lower of carrying amount at designation and fair value less costs to sell.

Depreciation is not charged against tangible assets classified as held for sale.

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange ruling at the balance sheet date.

The results of foreign operations are translated into sterling at weighted average rates of exchange for the period.

Exchange differences arising from the retranslation of opening net assets and the net result for the year denominated in foreign currencies are transferred to the Group's translation reserve within equity. Other exchange differences are taken to the profit and loss account.

Goodwill arising on the acquisition of a foreign entity is treated as an asset of that foreign operation and is translated into sterling at the relevant closing rate.

FINANCIAL INSTRUMENTS

The Group has adopted both IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' from 1 January 2005.

Under the transition rules of IFRS 1, IAS 32 and IAS 39 are not applied to comparative balances; in 2005, comparative balances will be presented in accordance with UK GAAP.

Trade debtors Trade debtors are recorded at their original amount less an allowance for any doubtful accounts.

An allowance for doubtful accounts is made when collection of the full amount is no longer considered probable.

Investments On adoption of IAS 39 non-current investments are classified as available for sale and held at fair value. Gains and losses from fair value changes are recognised within equity. Impairment losses are recognised within the profit and loss account.

Until 1 January 2005, such investments were recorded in accordance with UK GAAP at cost less any provision for impairment.

Trade creditors Under both IAS 39 and UK GAAP, trade creditors are non-interest bearing and are stated at their nominal value.

Bank and other borrowings Under both IAS 39 (subject to the hedging policies outlined below) and UK GAAP, borrowings are stated at proceeds received plus any unamortised issue costs.

Under IAS 39 and UK GAAP, finance charges including issue costs are charged to the profit and loss account using an effective interest rate method. Finance costs not settled in the period are included within the outstanding loan balance.

Derivative financial instruments and hedging Under IFRS, non-hedging derivatives and other treasury instruments are carried on the balance sheet at fair value. Movements in fair value are recognised in the profit and loss account.

Derivatives designated as hedging instruments are accounted for in line with the nature of the hedging arrangement. Documentation outlining the measurement and effectiveness of a hedging arrangement is maintained throughout the life of the hedge relationship. Any ineffective element of a hedge arrangement is recognised in the profit and loss account.

GOODWILL

Goodwill arises on consolidation as the excess of the cost of acquisition over the fair value at the date of acquisition of assets acquired of a subsidiary, associate or jointly controlled entity.

Goodwill is recognised as an asset and tested annually for impairment. Goodwill is not amortised.

Negative goodwill is recognised immediately in the profit and loss account.

Goodwill arising on acquisitions prior to 30 September 1998 was eliminated against shareholders' funds under UK GAAP; it has not been reinstated. On disposal of a business, any such goodwill relating to the business will not be taken into account in determining the profit or loss on disposal.

INTANGIBLE ASSETS

Acquired through a business combination On acquisition of an entity, intangible assets which are separately identifiable and arise from a legal or contractual right are recognised at fair value and amortised on a straight line basis over a period appropriate to the type of asset.

Other intangible assets Amounts paid to hotel owners to secure management contracts and franchise agreements are capitalised and amortised over the shorter of the contracted period and 10 years.

Internally generated development costs are capitalised when forecast related revenues exceed attributable forecast development costs.

In the circumstance of a hotel or other asset being sold to a purchaser who then enters into a management or franchise contract with the Group, this is accounted for as an exchange of assets and the profit or loss on disposal is determined by comparing the net book value of the asset sold to the total consideration received, which includes an estimate of the fair value of the contract.

International financial reporting information

PROPERTY, PLANT AND EQUIPMENT

Freehold and leasehold land and buildings are stated at cost, except as allowed under the IFRS 1 transition rules, less depreciation and any impairment.

All other fixed assets are stated at cost less depreciation and impairment. Borrowing costs are not capitalised. Repairs and maintenance costs are expensed as incurred.

Under the transition rules of IFRS 1, the Group has elected to use previous UK GAAP carrying values, including revaluations, as deemed cost at transition.

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

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

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

IMPAIRMENT

At each balance sheet date the Group reviews all assets to determine if there are any indicators of impairment. If indicators of impairment exist then the recoverable amount of an asset or cash generating unit (CGU) is estimated.

Where individual assets do not generate cash flows independent from other assets, the Group reviews the carrying value and recoverable amount of a CGU. This is the smallest group of assets where independent cash flows are produced.

Intangible assets with an indefinite life and goodwill are tested for impairment at least annually by comparing carrying values with recoverable amounts.

If the recoverable amount of an asset or CGU is less than its carrying amount, the difference is recognised in the profit and loss account as an impairment loss.

DEFERRED TAXATION

Deferred tax assets and liabilities are recognised in respect of all temporary differences between the tax base and carrying value of assets and liabilities. Those temporary differences recognised include accelerated capital allowances, unrelieved tax losses, unremitted profits from overseas where the Group does not control remittance, gains rolled over into replacement assets, gains on previously revalued properties and other short-term temporary differences.

Deferred tax assets are recognised to the extent that it is regarded as probable that the deductible temporary differences can be utilised. The recoverability of all deferred tax assets is reassessed at each balance sheet date.

Deferred tax is calculated at the tax rates that are expected to apply in the periods in which the asset or liability will be settled.

LEASES

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

PENSIONS

Defined contribution plans Payments to defined contribution schemes are charged to the profit and loss account as they fall due.

Defined benefit plans Any excess or shortfall of scheme assets, measured at fair value, over scheme liabilities, measured using the projected unit credit method, is recognised in the balance sheet.

Actuarial gains and losses are recognised in reserves in the year in which they arise.

Past service cost is recognised immediately when the related benefits have vested. When benefits are not fully vested, these costs are recognised on a straight line basis over the remaining vesting period.

Actuarial valuations are normally carried out every three years.

SELF INSURANCE

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

STOCKS

Stocks are stated at the lower of cost and net realisable value. Cost includes direct purchase costs and other overheads incurred in bringing these stocks to their present location and condition. Cost is determined by a first-in, first-out method.

Net realisable value represents estimated selling price less marketing and selling costs.

REVENUE RECOGNITION

Revenue is derived from the following sources: owned and leased properties; management fees; franchise fees; sale of soft drinks and other revenues which are ancillary to the Group's operations.

Generally, revenue represents sales (excluding VAT and similar taxes) of goods and services, net of discounts, provided in the normal course of business and recognised when services have been rendered. The following is a description of the composition of revenues of the Group.

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

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

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

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

LOYALTY PROGRAMME

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

USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term highly liquid investments with a maturity of less than 90 days that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Bank overdrafts repayable on demand are a component of cash equivalents.

SHARE-BASED PAYMENTS

In accordance with the transitional provisions of IFRS 2 'Share-based Payment' the Group has elected to apply IFRS 2 to grants, options and other equity instruments granted after 7 November 2002 not vested at 1 January 2004.

The Group issues equity settled share-based payments to certain employees through incentive schemes and a Save As You Earn (SAYE) scheme. The fair value of these share-based payments is expensed on a straight line basis over the vesting period of the equity instrument, based on the Group's best estimate of the number of shares that will vest.

Fair value is based on option pricing models and the terms and conditions of the option schemes.

PROPOSED DIVIDEND

Dividends of £81m (2003 £86m) were proposed before the balance sheet date.

International financial reporting information

Accounting policy differences between UK GAAP and International Financial Reporting Standards (IFRS)

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

Assets held for sale Under UK GAAP there is no held for sale definition and no reclassification is required.

Under IFRS, assets are classified as held for sale when their value will be recovered through a sale transaction rather than continuing use, and management consider a sale to be highly probable.

Assets classified as held for sale are held at the lower of their carrying value and fair value less costs to sell. No depreciation or amortisation is charged on assets held for sale.

Discontinued operations Under UK GAAP, operations are classified as discontinued when the sale or termination of operations is completed before the earlier of three months after year end or approval of the financial statements. In addition, the operations concerned must have a material effect on the nature and focus of operations resulting in either a withdrawal from a particular class of business or geographical market or a material reduction in turnover in a continuing market.

Under IFRS, the results of operations arising from assets classified as held for sale are classified as discontinued operations when the results relate to a separate line of business, or geographical area of operations, or where there is a coordinated plan to dispose of a separate line of business or geographical area of operations.

Discontinued operations are shown as a separate figure, net of tax, on the face of the profit and loss account.

Goodwill Under UK GAAP, goodwill is amortised over 20 years and tested for impairment annually.

Under IFRS, goodwill is subject to annual impairment testing and is not amortised.

Impairment Under UK GAAP, impairment is measured for an income-generating unit when indicators of impairment exist. All assets are reviewed for indicators of impairment at the balance sheet date.

Under IFRS, all assets are reviewed for evidence of the existence of impairment indicators at each reporting date. Assets with an indefinite life (such as goodwill) are subject to impairment testing at least annually.

Pension costs Under UK GAAP, the Group provides for the cost of retirement benefits based upon a consistent percentage of employees' pensionable pay as recommended by independent qualified actuaries. Variations in regular pension costs are amortised over the average expected service life of current employees on a straight line basis. Scheme assets and liabilities are not recognised on the Group's balance sheet.

Under IFRS, the cost of providing defined benefit retirement benefits is recognised over the service life of scheme members. This cost is calculated by an independent qualified actuary, based on estimates of long-term rates of return on scheme assets and discount rates on scheme liabilities.

Any excess or deficit of scheme assets over scheme liabilities is recorded as an asset or liability, respectively, in the Group's balance sheet to the extent that it does not relate to unrecognised actuarial gains and losses.

Each year the scheme net assets or liabilities are adjusted for actuarial gains and losses which are recognised directly in reserves.

Share-based payment Under IFRS, the fair value of all share-based payments is expensed over the vesting period of the related equity instruments, based on the Group's best estimate of the number of shares that will vest.

Fair value is determined by an option pricing model applied to all share-based payments granted after 7 November 2002.

Deferred taxation Under UK GAAP, deferred tax is provided on all timing differences, subject to certain exceptions. Accordingly, deferred tax is not provided on revaluation gains and gains rolled over into replacement assets unless there exists a binding agreement for sale, nor on unremitted earnings of investments except to the extent of accrued dividends or where there exists a binding agreement to distribute earnings.

Under IFRS, deferred tax is recognised on all temporary differences between the tax base and carrying value of assets and liabilities, including those arising from revaluation of assets, on gains rolled over into replacement assets and on unremitted earnings of investments where the Group does not control the timing of distributions.

In addition, IFRS requires the tax base of assets and liabilities to be determined by management's current intended use and the intended manner of realisation of the asset or liability.

Cash and cash equivalents Under UK GAAP, there is no equivalent definition.

Under IFRS, cash equivalents are defined as short-term highly liquid investments with a maturity of less than 90 days that are readily convertible into a known amount of cash.

Dividends Under UK GAAP, dividends are recognised as an expense in the period in which they are declared.

Under IFRS, dividends are recognised as an appropriation of reserves in the period in which they are approved.

Reconciliation of earnings under UK GAAP to IFRS for the year ended 31 December 2004

	Turnover £m	Operating profit before exceptional items £m	Interest £m	Tax £m	Exceptional items £m	Profit after tax £m	Minority interest £m	Earnings available for shareholders £m
As reported under UK GAAP	**2,204**	**331**	**(22)**	**(50)**	**68**	**327**	**(28)**	**299**
Remove goodwill amortisation	–	10	–	(1)	–	9	(1)	8
Pension accounting adjustments	–	(6)	–	2	–	(4)	2	(2)
Share-based payment adjustments	–	(4)	–	3	–	(1)	–	(1)
Impairment of previously revalued assets	–	–	–	–	(6)	(6)	–	(6)
Depreciation adjustment of held for sale assets	–	15	–	(5)	–	10	–	10
Adjustment to provision for loss on disposal of operations	–	–	–	–	74	74	–	74
IFRS tax adjustments	–	–	–	(5)	6	1	–	1
Under IFRS	**2,204**	**346**	**(22)**	**(56)**	**142**	**410**	**(27)**	**383**
Continuing operations	1,602	228	(22)	(18)	118	306	(27)	279
Discontinued operations	602	118	–	(38)	24	104	–	104

Key indicators

	UK GAAP £m	IFRS £m
Net debt	(1,116)	(1,116)
EBITDA before exceptional items	529	519
Basic earnings per share	42.1p	53.9p

Reconciliation of basic EPS to adjusted EPS

	£m	Pence per ordinary share
Basic EPS under UK GAAP	**299**	**42.1**
Exclude exceptional items under UK GAAP	(68)	(9.6)
Adjusted EPS under UK GAAP	**231**	**32.5**
IFRS adjustments:		
Remove goodwill amortisation	10	1.4
Pension accounting adjustments	(6)	(0.8)
Share-based payment adjustments	(4)	(0.6)
Depreciation adjustment of held for sale assets	15	2.1
IFRS tax adjustments	(6)	(0.8)
Minority share of above adjustments	1	0.1
Adjusted EPS under IFRS	**241**	**33.9**

International financial reporting information

Reconciliation of UK GAAP balance sheet to IFRS balance sheet at 1 January 2004

	Non current assets £m	Current assets £m	Current liabilities £m	Non current liabilities £m	Minority interests £m	Net assets £m	Equity £m
As reported under UK GAAP	**4,281**	**999**	**(1,085)**	**(1,478)**	**(163)**	**2,554**	**(2,554)**
Reclassify proposed dividends	–	–	86	–	–	86	(86)
Pension accounting adjustments	–	(47)	–	(131)	57	(121)	121
Deferred tax adjustments	–	–	–	(163)	(17)	(180)	180
Reclassifications	30	(30)	–	–	–	–	–
Under IFRS at 1 January 2004	**4,311**	**922**	**(999)**	**(1,772)**	**(123)**	**2,339**	**(2,339)**

Reconciliation of UK GAAP balance sheet to IFRS balance sheet at 31 December 2004

	Non current assets £m	Current assets £m	Current liabilities £m	Non current liabilities £m	Minority interests £m	Net assets £m	Equity £m
As reported under UK GAAP	**4,017**	**757**	**(1,013)**	**(1,634)**	**(150)**	**1,977**	**(1,977)**
Reclassify proposed dividends	–	–	81	–	–	81	(81)
Remove goodwill amortisation	10	–	–	–	(1)	9	(9)
Pension accounting adjustments	–	(110)	–	(125)	75	(160)	160
Deferred tax adjustments	–	–	–	(134)	(22)	(156)	156
Reclassify assets as held for sale	15	–	–	74	–	89	(89)
Reclassifications	31	(31)	–	–	–	–	–
Under IFRS at 31 December 2004	**4,073**	**616**	**(932)**	**(1,819)**	**(98)**	**1,840**	**(1,840)**

Independent auditors' report on the International financial reporting information

Independent auditors' report to InterContinental Hotels Group PLC on the International financial reporting information

We have audited the International financial reporting information of InterContinental Hotels Group PLC ("the Company") and its subsidiaries (together, "the Group") which comprises the Reconciliation of earnings under UK GAAP to IFRS for the year ended 31 December 2004, Reconciliation of UK GAAP balance sheet to IFRS balance sheet at 1 January 2004 and the Reconciliation of UK GAAP balance sheet to IFRS balance sheet at 31 December 2004, together with the related accounting policies note.

This report is made solely to the Company in accordance with our engagement letter. Our audit work has been undertaken so that we might state to the Company those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND ERNST & YOUNG LLP

These preliminary IFRS financial statements are the responsibility of the Company's directors and have been prepared as part of the Company's conversion to IFRS. They have been prepared in accordance with the basis set out in the accounting policies note, which describes how IFRS has been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 31 December 2005.

Our responsibility is to express an independent opinion, based on our audit, on the preliminary IFRS financial statements. We read the other information accompanying the preliminary IFRS financial statements and consider whether it is consistent with the preliminary IFRS financial statements. This other information comprises Accounting policy differences between UK GAAP and International Financial Reporting Standards (IFRS). We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the preliminary IFRS financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the preliminary IFRS financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the opening balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the preliminary IFRS financial statements. We believe that our audit provides a reasonable basis for our opinion.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to the fact that the accounting policies note explains why there is a possibility that the preliminary IFRS financial statements may require adjustment before constituting the final IFRS financial statements. Moreover, we draw attention to the fact that, under IFRS only a complete set of financial statements with comparative financial information and explanatory notes can provide a fair presentation of the Company's financial position, results of operations and cash flows in accordance with IFRS.

OPINION

In our opinion, the preliminary IFRS financial statements for the year ended 31 December 2004 have been prepared, in all material respects, in accordance with the basis set out in the accounting policies note, which describes how IFRS have been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 31 December 2005.

Ernst & Young LLP
London
9 March 2005

Directors' report

The directors present their report for the financial year ended 31 December 2004.

ACTIVITIES OF THE GROUP

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

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The Operating and Financial Review on pages 1 to 13, together with the Chairman's Review and the business reviews presented in the Annual Review and Summary Financial Statement provide information about the Group's businesses, their financial performance during the year and likely developments.

SEPARATION OF SIX CONTINENTS

InterContinental Hotels Group PLC became the holding company for the Group on completion of the Separation of Six Continents PLC and the listing of IHG shares on 15 April 2003.

RETURN OF SHAREHOLDERS' FUNDS AND SHARE CONSOLIDATION

During the year the Company completed a £250m share repurchase programme. A further £250m share repurchase programme began in December 2004 and is planned for completion during 2005. Additionally £501m was returned to shareholders on 17 December 2004 by way of a special interim dividend of 72.0p per share. This special dividend was accompanied by a consolidation of the Company's ordinary share capital on the basis of 25 new ordinary shares for every 28 existing ordinary shares, effective from 13 December 2004. The nominal value of the new shares is 112p per share.

RESULTS AND DIVIDENDS

The profit on ordinary activities before taxation was £210m. In addition to the special dividend, an interim dividend of 4.3p per share was paid on 18 October 2004. The directors are recommending a final dividend of 10.0p per share to be paid on 3 June 2005 to shareholders on the Register at close of business on 1 April 2005. Total dividends for the year will amount to £592m.

EMPLOYEES

IHG employed an average of 29,659 people worldwide in the year ended 31 December 2004.

The Group is committed to providing equality of opportunity to all employees without discrimination and continues to be supportive of the employment and advancement of disabled persons. During the year employees throughout the UK undertook training in respect of Part 3 of the Disability Discrimination Act 1995, which came into effect on 1 October 2004.

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

Great emphasis is placed on employee communication, particularly on matters relating to the Group's business and its performance. Communication channels include global management conferences, team meetings, informal briefings, in-house publications, and intranets. Regular feedback is obtained through employee focus groups and employee opinion surveys, the results of which are utilised in developing management policies and best practice. A European Forum brings together senior managers and employee representatives from EU countries to discuss pan-European issues.

INVESTORS IN PEOPLE

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

HEALTH AND SAFETY

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

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

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

FORMER SIX CONTINENTS SHARE SCHEMES

Under the terms of the Separation of Six Continents PLC in 2003, holders of options under the **Six Continents Executive Share Option Schemes** were given the opportunity to exchange their Six Continents options for equivalent value new options over IHG shares. During the year 7,429,736 such options were exercised, leaving a total of 12,568,562 such options outstanding at prices ranging from 308.48p to 593.29p.

Following Separation, the Six Continents shares held by the Trustee of the **Six Continents Employee Profit Share Scheme** on behalf of beneficiaries were exchanged for IHG and Mitchells & Butlers shares. During 2004, the Trust released 776,252 IHG shares out of profits previously appropriated to them by the Six Continents PLC Board in 2001. At 31 December 2004, 659,665 IHG shares were held by the Trustee on behalf of beneficiaries.

Under the terms of the **Six Continents Special Deferred Incentive Plan** 59,217 IHG shares were transferred to employees in 2004, reflecting entitlements existing prior to the Separation.

INTERCONTINENTAL HOTELS GROUP SHARE PLANS

During 2004, 631,717 IHG shares were awarded under the **Britvic Share Incentive Plan** to be retained in Trust by Hill Samuel ESOP Trustee Limited as free and partnership shares on behalf of 2,620 eligible employees, subject to the Plan rules.

In 2004, options were granted under the **Executive Share Option Plan** to 180 employees over 6,951,420 IHG shares at 494.17p per share.

During 2004, conditional rights over 2,665,390 IHG shares were awarded to employees under the **Performance Restricted Share Plan**.

A number of employees participated in the **Short Term Deferred Incentive Plan** during the year and conditional rights over 232,700 IHG shares were awarded to participants. A number of participants are eligible to receive an award in IHG shares on 16 March 2005.

No options were granted under the **Sharesave Plan** during the year. Neither the **Hotels Group Share Incentive Plan** nor the **US Employee Stock Purchase Plan** were operated during the year.

SHARE CAPITAL

During the year, 3,931,494 new IHG shares were issued under employee share schemes and, following the share capital consolidation, the ordinary share capital at 31 December 2004 consisted of 622,068,047 IHG shares of 112p each.

46,385,981 IHG shares were purchased and cancelled during the year. Of these, 44,635,981 were £1 shares, purchased at an average price of 546p per share. These shares represented approximately 6% of the issued share capital of the Company at the start of the year and were purchased and cancelled under the authorities granted by shareholders at the Annual General Meetings of the Company held in 2003 and 2004. As at 9 March 2005 a further 3,500,000 112p shares have been purchased at an average price of 648p per share, representing approximately 0.50% of the issued share capital of the Company immediately after the share capital consolidation. These shares were purchased and cancelled using the authority granted by shareholders at an Extraordinary General Meeting held on 10 December 2004. This authority remains in force until the Annual General Meeting 2005 and a resolution to renew the authority will be put to shareholders at that Meeting.

SUBSTANTIAL SHAREHOLDINGS

As at 9 March 2005, the Company has been notified by shareholders of the following substantial interests (3% or more) in its ordinary share capital:

Legal & General Group Plc 3.89%
Lloyds TSB Group Plc 3.44%

POLICY ON PAYMENT OF SUPPLIERS

IHG PLC is a holding company and has no trade creditors. Group companies aim to adhere to the payment terms agreed with suppliers. Payments are contingent on the supplier providing goods or services to the required standard, and purchasing is sometimes coordinated between Group undertakings.

DIRECTORS’ AND OFFICERS’ LIABILITY INSURANCE

During the year, IHG has maintained cover for its directors and officers and those of its subsidiary companies under a directors’ and officers’ liability insurance policy, as permitted by section 310(3) of the Companies Act 1985.

CODE OF ETHICS

The Board has adopted a specific Code of Ethics for senior financial officers, consistent with the Company’s existing Guidelines for Proper Business Conduct.

CORPORATE SOCIAL RESPONSIBILITY

IHG believes that Corporate Social Responsibility makes sound business sense, and seeks to embed good practice throughout the Group.

IHG’s commitment to environmental, community and ethical matters and to developing its people is described more fully in the Annual Review and Summary Financial Statement. IHG’s Corporate Social Responsibility policies are published on the Company’s website.

CHARITABLE DONATIONS

IHG continues to support community initiatives and charitable causes and during the year donated £0.7m. In addition to these cash contributions, employees are encouraged to give their time and skills to a variety of causes and IHG makes donations in kind, such as hotel accommodation. Taking these contributions into account, total donations in 2004 are estimated at £1.1m.

POLITICAL DONATIONS

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

GOING CONCERN

The financial statements which appear on pages 38 to 66 have been prepared on a going concern basis as, after making appropriate enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

AUDITORS

The directors are not aware of any relevant information which has not been disclosed to the auditors.

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

ANNUAL GENERAL MEETING

The Notice convening the Annual General Meeting to be held at 10.30am on Wednesday, 1 June 2005 is contained in a circular sent to shareholders with this Report.

By order of the Board

Richard Winter
Company Secretary
9 March 2005

Corporate governance

COMBINED CODE COMPLIANCE

The Board is committed to compliance with the principles set out in the Combined Code on Corporate Governance ('the Code') and, in the opinion of the Board, the Company has complied with the Code requirements as they apply for the year ended 31 December 2004 with the exception only of the item highlighted in this report.

As InterContinental Hotels Group PLC's shares are listed on the New York Stock Exchange ('NYSE'), the Company is subject to the rules of the NYSE, US securities laws and the rules of the Securities and Exchange Commission ('SEC'). A statement outlining the differences between the Company's corporate governance practices and those followed by US companies may be found on the Company's website at www.ihgplc.com/investors as required by the SEC.

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

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

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

In addition, the Audit Committee receives:

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

The Board has conducted a review of the effectiveness of the system of internal control during the year ended 31 December 2004, taking account of any material developments which have taken place since the year end.

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

To comply with the Group's US obligations, arising from the Sarbanes-Oxley Act 2002, a project is being conducted to identify, evaluate and test critical internal financial controls across all our business units. This should enable representations to be made regarding the effectiveness of internal financial controls when the Group is required to report in compliance with these US obligations.

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

BOARD AND COMMITTEE STRUCTURE

To support the principles of good corporate governance, the Board and Committee structure operates as set out below.

THE BOARD

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

The Board is responsible to the shareholders for the strategic direction, development and control of the Group. It therefore approves strategic plans and capital and revenue budgets. It reviews significant investment proposals and the performance of past investments and maintains an overview and control of the Group's operating and financial performance. It monitors the Group's overall system of internal controls, governance and compliance. The Board ensures that the necessary financial and human resources are in place for the Group to meet its objectives. The Board has established a schedule of matters which are reserved for its attention and decision.

The Board adopts objective criteria for the appointment of directors, and the roles of the Chairman and of the Chief Executive have been defined in writing and approved by the Board.

The Board has responsibility for the planned and progressive refreshing of the Board and its Committees. It establishes and regularly reviews its policy in both of these areas and it is the Nomination Committee's responsibility to evaluate formally the required skills, knowledge and experience of the Board, in a structured way.

Seven regular Board meetings are scheduled each year and further meetings are held as needed. Seven Board meetings were held during 2004. These were attended by all directors with the exception that Ralph Kugler and Sir Howard Stringer could not attend one meeting each. Despite being unable to attend a meeting, these directors were provided with all the papers and information relating to the meeting and were able to discuss matters arising with the Chairman and the Chief Executive.

All directors are briefed by means of comprehensive papers in advance of Board meetings and by presentations at meetings. Their understanding of the Group's operations is enhanced by regular business presentations outside Board meetings and visits to the regions. At least one Board meeting a year is held overseas.

A formal performance evaluation of the Board, its Committees and directors was undertaken by the Chairman and the Senior Independent Director shortly after the year end. The evaluation was conducted in accordance with the suggestions for good practice contained in the Higgs Report, and by way of private discussions with each director, having regard to the potential for performance improvement. The Chairman's performance was reviewed by the Senior Independent Director, taking account of the views of all the other directors. Feedback was provided to the Board through a formal report. The evaluation concluded that the range of experience and skills of the current directors provides a sound basis for an effective and unified Board. All the main Committees are ably led by their respective Chairmen and all have addressed the issues and business matters requiring their attention and decisions during the year, diligently and robustly. The conclusion was that all individual directors continue to perform effectively. Attention will be given to any matters arising from the evaluation process. It is intended that a comprehensive evaluation will take place annually.

The following were directors of the Company during the year:

	Position	Date of original appointment
David Webster	Non-executive Chairman	15.4.03
Richard North*	Chief Executive	10.2.03
Richard Solomons	Finance Director	10.2.03
Richard Hartman	Managing Director, Europe, Middle East & Africa	15.4.03
Stevan Porter	President, the Americas	15.4.03
David Kappler	Non-executive director and Senior Independent Director	21.6.04
Ralph Kugler	Non-executive director	15.4.03
Robert C Larson	Non-executive director	15.4.03
David Prosser	Non-executive director	15.4.03
Sir Howard Stringer	Non-executive director	15.4.03

* Resigned on 30 September 2004.

On 3 February 2005, Andrew Cosslett was appointed as Chief Executive of the Company.

Directors' biographical details are set out on page 27 of the Annual Review and Summary Financial Statement 2004. These include their main commitments outside the Company.

The IHG PLC director appointed during the year (David Kappler) has participated in an induction programme designed to meet his individual needs and to introduce him to, and familiarise him with, the principal activities of the Group and with central and regional management. A comprehensive induction programme has also been designed for Andrew Cosslett, the newly appointed Chief Executive. These induction programmes accord with the guidelines referred to in the Combined Code. The updating of all directors' skills and knowledge is a progressive exercise. This is accomplished at Board and strategy meetings, through presentations and visits to the Company's hotels and other business premises, and through contact with employees at all levels.

Andrew Cosslett and David Kappler, having been appointed as directors since the last Annual General Meeting, will retire and stand for appointment at the Annual General Meeting on 1 June 2005. In addition, Robert C Larson, having attained the age of 70, will retire and stand for reappointment. Special notice has been duly given to the Company in connection with the resolution to this effect that will be proposed to the Annual General Meeting. Richard Hartman, Ralph Kugler and Richard Solomons will also retire by rotation and stand for reappointment at the Annual General Meeting. The Notice of Annual General Meeting provides further information about the directors standing for appointment and reappointment. Details of the executive directors' service contracts are set out on page 32. The non-executive Chairman and the five independent non-executive directors have letters of appointment.

CHAIRMAN

David Webster was non-executive Chairman throughout the year. He retired as a director and Chairman of Safeway plc on 8 March 2004. He assumed the additional role of interim Chief Executive following the Company's announcement that Richard North was to step down as a director and as Chief Executive at the end of September 2004. For the remainder of 2004, the roles of Chairman and Chief Executive were not fulfilled by separate individuals, as required by the Combined Code. However, this was a temporary situation and David Webster stood down as interim Chief Executive on the appointment of Andrew Cosslett as Chief Executive with effect from 3 February 2005. David Webster was appointed non-executive Chairman of Makinson Cowell Limited on 12 October 2004. The Board is satisfied that this will have no adverse impact on the successful fulfilment of his commitment to the Company.

Corporate governance

The Chairman carries responsibility for ensuring the efficient operation of the Board and its Committees, for seeing that corporate governance matters are addressed, and for representing the Company externally and communicating particularly with shareholders. He also ensures that directors receive a full, formal and tailored induction to the Company and its businesses and that all directors are fully informed of relevant matters, working closely with the Chief Executive and the Company Secretary. The Chairman also meets regularly with the non-executive directors, without executive directors present.

CHIEF EXECUTIVE

Andrew Cosslett was appointed Chief Executive on 3 February 2005. He has responsibility to recommend to the Board and to implement the Company's strategic objectives. He is responsible for the executive management of the Group.

SENIOR INDEPENDENT DIRECTOR

David Prosser was the Company's Senior Independent Director until the appointment of David Kappler as a non-executive director on 21 June 2004. David Kappler is now the Company's Senior Independent Director. His responsibilities include being available to liaise with shareholders who have issues to raise. He meets at least annually with non-executive and executive directors, without the Chairman present, to review the performance of the Chairman.

NON-EXECUTIVE DIRECTORS

The Company's team of experienced independent non-executive directors represent a strong source of advice and judgement. There are five such directors, in addition to the non-executive Chairman, each of whom has significant external commercial experience. The non-executive directors, including the Chairman, met frequently during the year to discuss the Company's business and management.

In the Board's view, David Prosser meets the criteria for independence as set out in the Combined Code, notwithstanding his role as Group Chief Executive of Legal & General Group Plc, a major shareholder in the Company. The Combined Code requires that, for independence, an individual should be independent in character and judgement and free from any business or other relationship which could materially interfere with the exercise of his/her independent judgement. David Prosser's appointment was not linked in any way to Legal & General's share interest and he does not take part in decision-making by that company on specific investments.

Non-executive directors have the opportunity of continuing professional development during the year and of gaining further insight into the Company's business. During 2004, visits to operating premises (including hotels across the brand portfolio) were undertaken. In addition, the training requirements of the non-executive directors were reviewed during the year and will be kept under review.

There have been occasions when individual non-executive directors have been unable to attend a Board or Committee meeting. This is unavoidable from time to time, particularly given the other corporate and international responsibilities of the very experienced individuals concerned. They also spend significant time outside these formal meetings on the Company's business, reviewing proposals and projects, and generally overseeing its affairs. Any such occasional non-attendance is exceptional and the Board is satisfied that all directors remain committed to their roles and responsibilities.

COMPANY SECRETARY

All directors have access to the advice and services of the Company Secretary, Richard Winter. His responsibilities include ensuring good information flows to the Board and its Committees and between senior management and the non-executive directors. He facilitates the induction of directors, the regular updating and refreshing of their skills and knowledge, and he assists them in fulfilling their duties and responsibilities. Through the Chairman, he is responsible for advising the Board on corporate governance and generally for keeping the Board up to date on all legal, regulatory and other developments. The Company Secretary acts as secretary to each of the main Board Committees.

COMMITTEES

Each Committee of the Board has written terms of reference which have been approved by the Board.

Executive Committee This Committee is chaired by the Chief Executive. It consists of the executive directors and senior executives from the Group and the regions and usually meets monthly. Following the resignation of Richard North as a director and as Chief Executive on 30 September 2004, David Webster chaired the Executive Committee for the remainder of the year. Andrew Cosslett now chairs the Committee. Its role is to consider and manage a range of important strategic and business issues facing the Group. It is responsible for monitoring the performance of the regional Hotels businesses and the Britvic business and is authorised to approve capital and revenue investment within levels agreed by the Board. It reviews and recommends to the Board the most significant investment proposals. During 2004, a detailed senior management succession planning exercise was undertaken by the Executive Committee. It is intended to conduct such formal exercises regularly.

Audit Committee The Audit Committee is chaired by David Kappler who has significant recent and relevant financial experience and is the Committee's financial expert. He took over the role of Chairman of the Committee following his appointment to the Board and as Senior Independent Director on 21 June 2004. In accordance with the Combined Code, David Webster stood down as Chairman and member of the Audit Committee as soon as David Kappler was appointed. All other members were appointed to the Committee on their original appointment as directors in 2003. During 2004, the Committee consisted of all the non-executive directors, excluding the Chairman of the Company, and is scheduled to meet at least four times a year. The Committee met five times in the year. Messrs Kugler and Larson and Sir Howard Stringer were unable to attend one meeting each. The Audit Committee's role is described on page 28.

Remuneration Committee The Remuneration Committee, chaired by David Prosser, consists of all the non-executive directors, excluding the Chairman of the Company, and meets at least three times a year. Its role is described on page 29. The Committee met six times during the year. Messrs Kugler and Larson and Sir Howard Stringer were unable to attend one meeting each.

Nomination Committee The Nomination Committee's quorum comprises any three non-executive directors although, where possible, all non-executive directors are present. It is chaired by the Chairman of the Company. Its terms of reference reflect the principal duties of a Nomination Committee proposed as good practice and referred to in the Combined Code. The Committee is responsible for nominating, for the approval of the Board, candidates for appointment to the Board, and also for succession planning. The Committee generally engages external consultants to advise on candidates for Board appointments, and did so in connection with the appointments of Messrs Cosslett and Kappler. Candidate profiles and objective selection criteria were prepared in advance of these engagements. The Committee also assists the Board in identifying and developing the role of the Senior Independent Director. The Committee met formally five times during the year. Robert C Larson was unable to attend one meeting. Sir Howard Stringer was unable to attend two meetings.

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

General Purposes Committee The General Purposes Committee comprises any two executive directors or any one executive director together with a senior officer from an agreed and restricted list of senior executives. It is always chaired by a director. It attends to business of a routine nature and to the administration of matters, the principles of which have been agreed previously by the Board or an appropriate Committee.

RE-ELECTION OF DIRECTORS

The Company ensures that directors submit themselves for re-election at least every three years. The proposals for reappointments at the 2005 Annual General Meeting are set out in the Notice of Annual General Meeting, sent to shareholders with this Report.

INDEPENDENT ADVICE

There is an agreed procedure by which members of the Board may take independent professional advice in the furtherance of their duties and they have access to the advice and services of the Company Secretary.

SHAREHOLDER RELATIONS

The Company reports formally to shareholders twice a year when its half-year and full-year results are announced. The Chief Executive and the Finance Director give presentations on these results to institutional investors, analysts and the media. In addition, there are telephone conferences after the release of the first and third quarter results and the data used in these presentations and conferences is placed on the website www.ihgplc.com

The Company also has a programme of meetings throughout the year with its major institutional shareholders, which provides an opportunity to discuss, using publicly available information, the progress of the business, its performance, plans and objectives. The Chairman, the Senior Independent Director and other non-executive directors are available to meet with major shareholders to understand their issues and concerns and to discuss governance and strategy. Any new director is available for meetings with major shareholders as a matter of course.

Additionally, the Annual General Meeting provides a useful interface with private shareholders, many of whom are also customers. The Chairmen of the Audit, Remuneration and Nomination Committees are available at those meetings to answer questions. The availability to shareholders of information about the Group is maintained through the website.

A formal external review of shareholder opinion is presented to the Board on an annual basis and both the Executive Committee and the Board receive regular updates on shareholder relations activities.

FURTHER INFORMATION

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

Audit committee report

The Audit Committee assists the Board in observing its responsibilities in relation to the integrity of the Group's financial statements and associated announcements, the adequacy of internal control and risk management systems and the appointment and work of the internal and external auditors. The role of the Audit Committee, including the powers and responsibilities delegated by the Board, is summarised below and in full in its terms of reference, a copy of which is available on the Company's website or in writing on request.

The Committee's composition, the dates of appointment and the attendance of its members throughout 2004 are set out on page 26. The Committee's Chairman and financial expert, David Kappler, is a chartered management accountant and until April 2004 was Chief Financial Officer of Cadbury Schweppes plc. He also chairs the Audit Committees of two other UK public limited companies.

The Committee's principal responsibilities are to:

- review the Company's public statements on internal control and corporate governance compliance prior to their consideration by the Board;
- review the Company's processes for detecting and addressing fraud, misconduct and control weaknesses and to consider the Company's response to any such occurrence, including overseeing the process enabling the anonymous submission of concerns;
- review reports from management, internal audit and external audit concerning the effectiveness of internal control, financial reporting and risk management processes;
- review with management and the external auditor any financial statements required under UK or US legislation before submission to the Board;
- establish, review and maintain the role and effectiveness of the Internal Audit function, including overseeing the appointment of the Head of Internal Audit;
- assume responsibility for the appointment, compensation, resignation, dismissal and the overseeing of the external auditor, including review of the external audit, its cost and effectiveness;
- pre-approve non-audit work to be carried out by the external auditor and the fees to be paid for that work along with the monitoring of the external auditor's independence;
- adopt and oversee a specific Code of Ethics for the senior financial officers, which is consistent with the Company's overall Guidelines for Proper Business Conduct.

The Committee discharges its responsibilities, as defined in its terms of reference, through a series of Audit Committee meetings throughout the year at which detailed reports are presented for review. The Committee commissions reports, either from external advisers, the Head of Internal Audit, or Company management, after consideration of the Company's major risks or in response to developing issues. The external auditor attends its meetings as does the Head of Internal Audit, both of whom have the opportunity to meet privately with the Committee, in the absence of Company management, at the conclusion of each meeting.

During the year, the Committee's deliberations included the following matters:

- quarterly, interim and full year financial results;
- the scope and cost of the external audit;
- any non-audit work carried out by the Group's external auditor and trends in the non-audit fees in accordance with the Committee's policy to ensure the safeguarding of audit independence and objectivity;
- the external auditor's interim and full year reports;
- the effectiveness of the external auditor and consideration of their reappointment;
- the scope of the annual internal audit plan, the Internal Audit department's approach to delivering assurance, its resourcing and the results of its reviews;
- the effectiveness of the Internal Audit function;
- any major changes in the Group's internal controls;
- the co-ordination of the internal and external audit functions;
- the Group's framework for the identification and control of major risks, and the results of the Group risk review process;
- corporate governance developments in the UK and the US;
- reports from the Head of Group Risk Management on the activities of that function;
- monitoring of the Group's International Financial Reporting Standard conversion exercise;
- overseeing the Group's Sarbanes-Oxley Act compliance work;
- the disclosure controls and procedures operated by the Group, with reference to periodic reports from the Chairman of the Disclosure Committee;
- periodic reports on any allegations made via the Group's whistleblowing procedures and the effectiveness of these procedures;
- any material litigation involving the Group.

The Company's public financial statements are reviewed by the Audit Committee in advance of their consideration by the Board. Adequate time is allowed between the Committee's review and the Board's approval for any actions or further work requested by the Committee to be completed.

The Audit Committee maintains its policy, introduced in 2003, whereby all proposals for the provision of non-audit services by the external auditor must be pre-approved by the Audit Committee or its delegated member. At all times the overriding consideration is to ensure that the provision of non-audit services does not impact the external auditor's independence and objectivity.

David Kappler
Chairman of the Audit Committee
9 March 2005

Remuneration report

This report has been prepared by the Remuneration Committee and has been approved by the Board. It complies with Schedule 7A to the Companies Act 1985, which incorporates the Directors' Remuneration Report Regulations 2002, and also with the Combined Code applicable for the 2004 financial year. This report will be put to shareholders for approval at the forthcoming Annual General Meeting.

1 THE REMUNERATION COMMITTEE

During the year, the Committee comprised the following non-executive directors:

David Prosser – Chairman

David Kappler (from 21.6.04)

Ralph Kugler

Robert C Larson+

Sir Howard Stringer

No member of the Committee has any personal financial interest, other than as a shareholder, in the matters to be decided by the Committee. The Committee met six times in the year. Messrs Kugler and Larson and Sir Howard Stringer were unable to attend one meeting each.

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

Those who provided material advice or services to the Committee during the year were:

Jim Larson+ – Executive Vice President, Human Resources

David House – Senior Vice President & Head of Reward

David Webster – Chairman

Richard North – Chief Executive

Linklaters

Towers Perrin Inc.

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

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

Messrs J Larson and House, Linklaters and Towers Perrin Inc. were originally appointed by the Group. The terms of reference of Towers Perrin Inc. are available from the Company Secretary's office on request.

2 POLICY ON REMUNERATION OF NON-EXECUTIVE DIRECTORS

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

Non-executive directors are paid a fee which is approved by the Board on the recommendation of the executive directors, having taken account of the fees paid in other companies of a similar complexity, and the skills and experience of the individual. Higher fees are payable to the Chairman of the Remuneration Committee and to the Senior Independent Director, who chairs the Audit Committee, reflecting the additional responsibilities of these roles.

Remuneration levels were reviewed during 2004. In view of the significant increased demands on non-executive directors as a result of increasing corporate governance requirements, including in respect of US obligations, non-executive directors' remuneration was increased with effect from 1 January 2005.

3 POLICY ON REMUNERATION OF EXECUTIVE DIRECTORS AND SENIOR EXECUTIVES

The following policy has applied throughout the year and will apply in future years, subject to ongoing review.

3.1 Total level of remuneration

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

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

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

3.2 The main components

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

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

Remuneration report

Individual performance is measured through an assessment of comprehensive business unit deliverables, demonstrated leadership behaviours, modelling the Group values and the achievement of specific Key Performance Objectives. At the executive level, Key Performance Objectives are linked directly to the Group's strategic priorities. At a minimum, the individual performance of the executive directors is assessed on an annual basis.

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

The main components of remuneration are:

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

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

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

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

Bonuses are not pensionable.

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

A performance condition has to be met before options can be exercised. The performance condition is set by the Committee. For options granted in 2004, the Company's adjusted earnings per share over the three-year period ending 31 December 2006 must increase by at least nine percentage points over the increase in the UK Retail Prices Index (RPI) for the same period for one-third of the options granted to vest; 12 percentage points over the increase in RPI for the same period for two-thirds of the options granted to vest; and 15 percentage points over the increase in RPI for the same period for the full award to vest. The options lapse if the performance condition is not met. This remains a realistic but challenging condition in the current economic climate. The achievement or otherwise of the performance condition is assessed, based on the Group's published results; such assessment is then reviewed by the external auditor.

Executive directors were granted options on 1 April 2004 as shown in the table on page 35.

It is the current intention for similar performance conditions to apply to options granted in 2005 and later years.

Executive share options are not pensionable.

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

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

For the 2004/06 cycle, performance will be measured by reference to:

- the increase in IHG PLC Total Shareholder Return ('TSR') over the performance period relative to 10 identified comparator companies; Accor, De Vere, Hilton Group, Hilton Hotels Corp., Host Marriott, Marriott Hotels, Millennium & Copthorne, NH Hotels, Sol Melia and Starwood Hotels; and
- the increase in IHG Return On Capital Employed ('ROCE') over the performance period.

In respect of TSR performance, 10% of the award will be released for the achievement of 6th place within the TSR group and 50% of the award will be released for the achievement of 1st or 2nd place. In respect of ROCE performance, 10% of the award will be released for the achievement of 70% growth and 50% of the award will be released for the achievement of 141.6% growth. Vesting between all stated points will be on a straight line basis.

The awards lapse if the performance conditions are not met.

Implementation of the elements of the IHG strategy that can significantly impact ROCE will be complete during the life of existing Performance Restricted Share Plan cycles. The Committee considers that it is now time to review this performance measure.

Benefits under the Performance Restricted Share Plan are not pensionable.

During the year, IHG has remained within its headroom limits for the issue of new shares under share incentive schemes. As at 31 December 2004, the Company's position under the Association of British Insurers' guidelines (that dilution under discretionary schemes should not exceed 5% in 10 years) was that shares equivalent to only 3.74% of ordinary share capital had been allocated. Against the guideline that overall dilution under all schemes should not exceed 10% in 10 years, IHG had allocated only 3.96%. These figures exclude obligations which are to be settled with shares purchased in the market.

3.3 Companies used for comparison

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

- size – turnover, profits and the number of people employed;
- diversity and complexity of businesses;
- geographical spread of businesses;
- industry type; and
- relevance as:
  a) a potential recruitment target
  b) a potential threat in respect of attracting IHG talent.

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

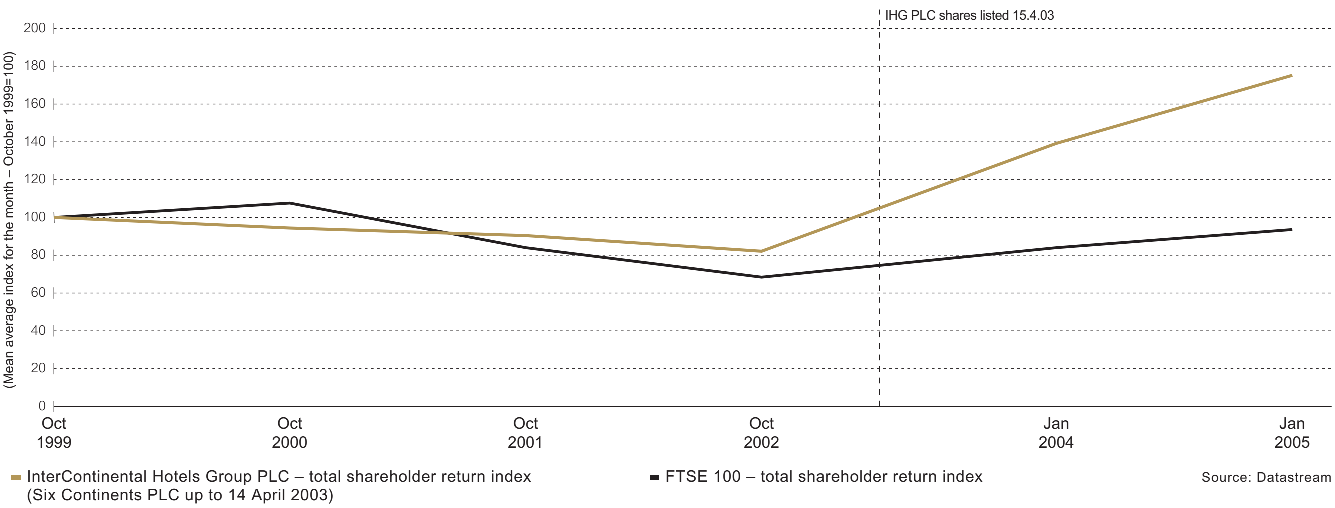
3.4 Policy on external appointments

The Company recognises that its directors may be invited to become non-executive directors of other companies and that such duties can broaden experience and knowledge, and benefit the business. Executive directors are, therefore, allowed to accept one non-executive appointment (excluding positions where the director is appointed as the Company's representative), subject to Board approval, as long as this is not likely to lead to a conflict of interest, and to retain the fees received. Richard North received £25,091 during the year for his services as a non-executive director. David Webster received £20,000 during the year for his services as a non-executive director.

3.5 Performance graph

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

Total Shareholder Return: InterContinental Hotels Group v FTSE 100



Source: Datastream

Remuneration report

3.6 Contracts of service

a) Policy

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

Prior to the Separation of Six Continents PLC Richard Hartman, Richard North, Stevan Porter and Richard Solomons entered into service agreements with a notice period of 12 months. Following the year end, Andrew Cosslett entered into a service agreement with an initial notice period of 24 months, reducing month by month to 12 months after 12 months. All new appointments are intended to have 12 month notice periods. However, on occasion, to complete an external recruitment successfully, a longer initial period reducing to 12 months may be used, following guidance in the Combined Code.

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

David Webster took over as interim Chief Executive on 15 September 2004 following announcement that Richard North would resign as a director of the Company on 30 September 2004. David Webster's remuneration in his capacity as interim Chief Executive is exclusive of his remuneration in his capacity as non-executive Chairman of the Company, which is the subject of a letter of appointment, with effect from 1 January 2004. David Webster's appointment as Chairman is subject to six months' notice.

Non-executive directors, Ralph Kugler, Robert C Larson, David Prosser and Sir Howard Stringer signed letters of appointment effective from the listing of IHG PLC. David Kappler signed a letter of appointment effective from 21 June 2004. All non-executive directors' appointments are subject to re-election at the Annual General Meeting at which they retire by rotation.

b) Directors' contracts

Directors	Contract Effective Date	Unexpired Term/ Notice Period
Andrew Cosslett	3.2.05	23 months
Richard Hartman	15.4.03	12 months
Stevan Porter	15.4.03	12 months
Richard Solomons	15.4.03	12 months
Richard North	15.4.03	Terminated

Richard North's service contract provided for a notice period of 12 months. The severance arrangements which were entered into following his resignation on 30 September 2004 provided for him to receive a payment of one month's basic salary in each month up to September 2005, subject to mitigation in the event of his taking up an alternative appointment. Details of his entitlements in respect of the Executive Share Option Plan, the Short Term Deferred Incentive Plan, the Performance Restricted Share Plan, and pension, are contained in the appropriate tables in the audited part of this report.

3.7 Policy regarding pensions

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

The Company is considering its detailed response to the new pension regime resulting from the Finance Act 2004 and applying from April 2006. Currently, the pension arrangements for UK-based executive directors and other senior employees provide benefits from both the tax-approved InterContinental Hotels UK Pension Plan and the unfunded InterContinental Executive Top-Up Scheme. After 2006 it may be possible to amend these plans to continue to provide, tax efficiently, similar benefits in total, but in some cases with a different split of benefits between the two plans. The Company's approach will be finalised during 2005.

The information provided in the following pages of this report has been audited by Ernst & Young LLP.

4 DIRECTORS' EMOLUMENTS

	Basic salaries and fees £000	Performance payments £000	Benefits £000	Total emoluments excluding pensions 1.1.04 to 31.12.04 £000	Total emoluments excluding pensions 1.10.02 to 31.12.03 £000
Executive directors					
Richard North[1]	638	553	57	**1,248**	1,183
Richard Hartman	476	–	299	**775**	663
Stevan Porter[2]	360	–	8	**368**	510
Richard Solomons	372	–	28	**400**	497
David Webster[3]	148	–	–	**148**	–
Non-executive directors					
David Kappler[4]	35	–	–	**35**	–
Ralph Kugler[5]	42	–	–	**42**	30
Robert C Larson[6]	42	–	–	**42**	53
David Prosser[7]	50	–	–	**50**	35
Sir Howard Stringer[6]	42	–	–	**42**	53
David Webster[8]	275	–	1	**276**	57
Former directors[9]	–	–	–	**–**	2,987
Total	**2,480**	**553**	**393**	**3,426**	**6,068**

1 Resigned as a director and as Chief Executive on 30 September 2004 and ceased employment with the Group on 31 December 2004. The emoluments shown are for the full year. Richard North's performance payment relates to his participation in the Short Term Deferred Incentive Plan which, in accordance with plan rules, must be paid in cash due to his employment ending. He remains eligible to participate in the Short Term Deferred Incentive Plan for the 2005 performance year. Any award will be made in cash and pro-rated to 30 September 2005.

2 Emoluments for Stevan Porter include £10,731 that were chargeable to UK income tax.

3 Fees paid to David Webster represent £41,667 per month payable to him in his capacity as interim Chief Executive with effect from 15 September 2004.

4 Became Senior Independent Director and Chairman of the Audit Committee on 21 June 2004 for which a fixed fee of £65,000 pa was paid. With effect from 1 January 2005, David Kappler receives a total annual fee of £80,000.

5 All fees due to Ralph Kugler are paid to Unilever. With effect from 1 January 2005, Ralph Kugler's fee as a non-executive director is £50,000 pa.

6 Both Robert C Larson and Sir Howard Stringer served as non-executive directors of Six Continents PLC during the period up to 15 April 2003 for which they each received a fee of £23,000. With effect from 1 January 2005, Robert C Larson and Sir Howard Stringer each receive an annual fee of £50,000.

7 Fees paid to David Prosser included a £7,500 pa fee payable to the Chairman of the Remuneration Committee in recognition of the additional responsibilities of this role. With effect from 1 January 2005, David Prosser receives a total annual fee of £65,000.

8 Became non-executive Chairman on 1 January 2004 for which a fixed fee of £275,000 pa was paid. With effect from 1 January 2005, David Webster's fee as non-executive Chairman is £350,000 pa.

9 The total emoluments earned by former directors of Six Continents PLC and IHG PLC during the period 1.10.02 to 31.12.03 are shown.

Comparative figures for 2003 represent emoluments earned during the 15 month period ended 31 December 2003. 'Performance payments' include bonus awards in cash in respect of participation in the Short Term Deferred Incentive Plan (STDIP) but exclude bonus awards in deferred shares and any matching shares, details of which are set out in the STDIP table on page 35.

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

Thomas Oliver retired from Six Continents PLC on 31 March 2003 and has not served as a director of IHG PLC. However, he has an ongoing consultancy agreement in respect of which he received fees of £136,677 during the year. In addition, he had an ongoing healthcare benefit of £9,919 during the year. These arrangements end in March 2005. Sir Ian Prosser retired on 31 December 2003. However, he had an ongoing healthcare benefit of £1,191 during the year.

Remuneration report

5 LONG TERM REWARD

PERFORMANCE RESTRICTED SHARE PLAN (PRSP)

In 2004 there were three cycles in operation.

The awards made in respect of the Performance Restricted Share Plan cycles ending on 31 December 2004, 31 December 2005 and 31 December 2006 and the maximum pre-tax number of ordinary shares due if performance targets are achieved in full are:

Directors	PRSP shares held at 1.1.04	PRSP shares awarded during the year 1.1.04 to 31.12.04	Award date	Market price per share at award	PRSP shares vested during the year 1.1.04 to 31.12.04	Vesting date	Market price per share at vesting	Value at vesting £	PRSP shares held at 31.12.04[5]	Planned vesting date	Value based on share price of 647.50p at 31.12.04 £
Richard Hartman	111,930[1]		18.6.03	445p	–	–	–	–	111,930	11.3.05	724,747
	167,900[2]		18.6.03	445p	–	–	–	–	167,900	3.3.06	1,087,153
		165,130[3]	24.6.04	549.5p	–	–	–	–	165,130	9.3.07	1,069,217
Total									**444,960**		**2,881,117**
Richard North	188,760[1]		18.6.03	445p	–	–	–	–	188,760	11.3.05	1,222,221
	283,140[2]		18.6.03	445p	–	–	–	–	259,545[4]	3.3.06	1,680,554
		248,560[3]	24.6.04	549.5p	–	–	–	–	144,993[4]	9.3.07	938,830
Total									**593,298**		**3,841,605**
Stevan Porter	113,810[1]		18.6.03	445p	–	–	–	–	113,810	11.3.05	736,920
	170,710[2]		18.6.03	445p	–	–	–	–	170,710	3.3.06	1,105,347
		142,290[3]	24.6.04	549.5p	–	–	–	–	142,290	9.3.07	921,328
Total									**426,810**		**2,763,595**
Sir Ian Prosser	65,410[1, 6]		18.6.03	445p	–	–	–	–	65,410	11.3.05	423,530
	65,410[2, 6]		18.6.03	445p	–	–	–	–	65,410	3.3.06	423,530
Total									**130,820**		**847,060**
Richard Solomons	110,110[1]		18.6.03	445p	–	–	–	–	110,110	11.3.05	712,962
	165,160[2]		18.6.03	445p	–	–	–	–	165,160	3.3.06	1,069,411
		144,990[3]	24.6.04	549.5p	–	–	–	–	144,990	9.3.07	938,810
Total									**420,260**		**2,721,183**
Total											**13,054,560**

1 This 'transitional' award is based on performance to 31 December 2004 where the performance measure relates to the Company's total shareholder return against a group of 11 other comparator companies. The number of shares released is graded, according to where the Company finishes in the comparator group, with 100% of the award being released for first or second position and 20% of the award being released for sixth place. The Company finished in fourth place and accordingly 60% of the award will vest on 11 March 2005.

2 This award is based on performance to 31 December 2005 where the performance measure relates to both the Company's total shareholder return against a group of 11 other comparator companies and growth in return on capital employed.

3 This award is based on performance to 31 December 2006 where the performance measure relates to both the Company's total shareholder return against a group of 10 other comparator companies and growth in return on capital employed.

4 Richard North's awards were pro-rated to reflect his contractual service during the applicable performance periods.

5 In the case of Richard North, who resigned as a director of the Company on 30 September 2004, the figures shown are as at cessation of employment.

6 Sir Ian Prosser's awards were pro-rated to reflect his actual service during the applicable performance periods.

SHORT TERM DEFERRED INCENTIVE PLAN (STDIP)

Messrs Hartman, Porter and Solomons participated in the STDIP during the year ended 31 December 2004, and are expected to receive an award on 16 March 2005. The awards, inclusive of matching shares, are expected to be in the range of 120% to 150% of base salary.

Directors' pre-tax interests during the year were:

Directors	STDIP shares held at 1.1.04[1]	STDIP shares awarded during the year 1.1.04 to 31.12.04	Award date	Market price per share at award	STDIP shares vested during the year 1.1.04 to 31.12.04	Vesting date	Market price per share at vesting[2]	Value at vesting £	STDIP shares held at 31.12.04	Planned vesting date	Value based on share price of 647.50p at 31.12.04 £
Richard North	3,789		15.4.03	372p	3,789	2.6.04	529.5p	20,063	–	–	–
Stevan Porter	55,428		18.12.01	434.3p	55,428	20.12.04	654.5p	362,776	–	–	–

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

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

SHARE OPTIONS

Directors	Ordinary shares under option: Options held at 1.1.04	Granted during the year	Lapsed during the year	Exercised during the year	Options held at 31.12.04[1]	Weighted average option price (p)	Option price (p)
Richard Hartman	615,072					414.88	
		218,950					494.17
a					364,388	398.98	
b					469,634	464.19	
Total	**615,072**	**218,950**	**–**	**–**	**834,022**	**435.70**	
Richard North	1,125,168					412.69	
		394,840					494.17
a					712,017	398.05	
b					807,991	465.40	
Total	**1,125,168**	**394,840**	**–**	**–**	**1,520,008**	**433.85**	
Stevan Porter	433,059					426.22	
		225,260					494.17
a					178,176	409.36	
b					480,143	464.35	
Total	**433,059**	**225,260**	**–**	**–**	**658,319**	**449.47**	
Richard Solomons	601,040					400.55	
		230,320					494.17
a					357,545	375.24	
b					473,815	465.16	
Total	**601,040**	**230,320**	**–**	**–**	**831,360**	**426.49**	

[1] In the case of Richard North, who resigned as a director of the Company on 30 September 2004, the figures shown are as at cessation of employment. In accordance with plan rules, Richard North's unvested options will lapse three and a half years from the date of cessation of employment.

a Where options are exercisable and the market price per share at 31 December 2004 was above the option price; and

b Where options are not yet exercisable. A performance condition has to be met before options can be exercised, in accordance with the policy set out on page 30.

Rolled over options, all of which are shown in 'a' above, became exercisable on the Separation of Six Continents PLC in April 2003 and will lapse on various dates up to October 2012. Rolled over options ceased to be subject to performance conditions on Separation.

Executive share options granted in 2003 are exercisable between May 2006 and May 2013, subject to the achievement of the performance condition. Sharesave options granted in 2003 are exercisable between March 2007 and March 2009.

Share options under the IHG Executive Share Option Plan were granted on 1 April 2004 at an option price of 494.17p. These options are exercisable between April 2007 and April 2014, subject to the achievement of the performance condition.

Option prices range from 308.48p to 593.29p per IHG PLC share. The closing market value share price on 31 December 2004 was 647.50p and the range during the year was 479.17p to 690.81p per share.

The gain on exercise by directors in aggregate was zero in the year ended 31 December 2004 (£69,491 in the period ended 31 December 2003).

Remuneration report

6 DIRECTORS' PENSIONS

The following information relates to the pension arrangements provided for Richard Hartman, Richard North and Richard Solomons under the executive section of the InterContinental Hotels UK Pension Plan ('the IC Plan') and the unfunded InterContinental Executive Top-Up Scheme ('ICETUS').

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

All plan benefits are subject to Inland Revenue limits. Where such limitation is due to the earnings 'cap', ICETUS is used to increase pension and death benefits to the level that would otherwise have applied.

Stevan Porter has retirement benefits provided via the 401(k) Retirement Plan for employees of Six Continents Hotels Inc. ('401(k)') and the Six Continents Hotels Inc. Deferred Compensation Plan ('DCP').

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

DIRECTORS' PENSION BENEFITS

Directors	Age at 31 Dec 2004	Directors' contributions in the year (note 1) £	Transfer value of accrued benefits 1 Jan 2004 £	Transfer value of accrued benefits 31 Dec 2004 £	Increases in transfer value over the year, less Directors' contributions £	Increase in accrued pension (note 2) £	Increase in accrued pension (note 3) £ pa	Accrued pension at 31 Dec 2004 (notes 4&5) £ pa
Richard Hartman	58	15,200	652,200	1,189,800	522,400	24,800	23,700	63,200
Richard North	54	15,200	2,423,800	3,581,400	1,142,400	60,300	55,200	240,300
Richard Solomons	43	15,100	569,400	834,100	249,600	21,300	19,200	96,800

note 1: Contributions paid in the year by the directors under the terms of the plans. Richard Hartman's contributions exclude £3,700 paid in 2004, but relating to 2003.

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

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

note 4: Accrued pension is that which would be paid annually on retirement at 60, based on service to 31 December 2004.

note 5: Richard North ceased pensionable service with the Group on 31 December 2004 and his deferred pension at that date is £240,300 pa, payable from his 60th birthday (inclusive of an augmentation agreed as part of his severance arrangements).

The figures shown in the above table relate to the final salary plans only. For defined contribution plans, the contributions made by and in respect of Stevan Porter during the year are:

	Director's contribution to DCP £	Director's contribution to 401(k) £
Stevan Porter	19,000	7,100

	Company contribution to DCP £	Company contribution to 401(k) £
Stevan Porter	56,800	5,700

The following additional information relates to directors' pensions under the UK plans:

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

b) Early retirement rights After leaving the service of the relevant company, the member has the right to draw his accrued pension at any time after his 50th birthday, subject to a discount for early payment.

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

d) Other discretionary benefits Other than the discretionary pension increases mentioned in **c)** above, there are no discretionary practices which are taken into account in calculating transfer values on leaving service.

7 DIRECTORS' SHAREHOLDINGS

Executive directors	**31 December 2004 InterContinental Hotels Group PLC Ordinary shares of 112p**	1 January 2004[1] InterContinental Hotels Group PLC Ordinary shares of £1[2]
Richard Hartman	45,247	30,345
Stevan Porter	88,077	56,754
Richard Solomons	16,031	17,956
David Webster	13,395	824
Non-executive directors		
David Kappler	2,602	2,915
Ralph Kugler	892	1,000
Robert C Larson[3]	10,714	9,805
David Prosser	4,464	5,000
Sir Howard Stringer	7,566	8,474

1 Or date of appointment, if later.

2 These share interests were in InterContinental Hotels Group PLC £1 ordinary shares prior to the share consolidation effective from 13 December 2004. For every 28 existing InterContinental Hotels Group PLC shares held on 10 December 2004, shareholders received 25 new ordinary shares of 112p each.

3 Held in the form of American Depositary Receipts.

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

At 31 December 2004, Richard Hartman, Stevan Porter and Richard Solomons, as potential beneficiaries under the Company's ESOP, were each technically deemed to be interested in 3,057,649 unallocated IHG PLC shares held by the Trustees of the ESOP. In the period from 31 December 2004 to 9 March 2005 a further 122,270 shares were released from the ESOP, reducing the number of shares in which these directors hold a residual interest to 2,935,379 in total.

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

By order of the Board

Richard Winter
Company Secretary
9 March 2005

Financial statements

GROUP PROFIT AND LOSS ACCOUNT

for the 12 months ended 31 December 2004	note	2004 12 months Before exceptional items £m	Exceptional items £m	Total £m	2003 15 months Before exceptional items restated* £m	Exceptional items restated* £m	Total £m
Turnover	2	**2,204**	**–**	**2,204**	3,483	–	3,483
analysed as:							
Continuing operations		**2,204**	**–**	**2,204**	2,690	–	2,690
Discontinued operations		**–**	**–**	**–**	793	–	793
Cost of sales		**(1,652)**	**(28)**	**(1,680)**	(2,717)	(51)	(2,768)
Gross operating profit		**552**	**(28)**	**524**	766	(51)	715
Administrative expenses		**(221)**	**(11)**	**(232)**	(283)	–	(283)
Other operating income		**–**	**20**	**20**	–	–	–
Operating profit	2	**331**	**(19)**	**312**	483	(51)	432
analysed as:							
Continuing operations		**331**	**(19)**	**312**	346	(51)	295
Discontinued operations		**–**	**–**	**–**	137	–	137
Non-operating exceptional items	7	**–**	**(69)**	**(69)**	–	(213)	(213)
analysed as:							
Continuing operations							
Cost of fundamental reorganisation		**–**	**–**	**–**	–	(67)	(67)
Separation costs		**–**	**–**	**–**	–	(51)	(51)
Profit on disposal of fixed assets		**–**	**15**	**15**	–	4	4
Provision for loss on disposal of operations		**–**	**(74)**	**(74)**	–	–	–
Provision against fixed asset investments		**–**	**(10)**	**(10)**	–	(56)	(56)
Discontinued operations							
Separation costs		**–**	**–**	**–**	–	(41)	(41)
Loss on disposal of fixed assets		**–**	**–**	**–**	–	(2)	(2)
Profit on ordinary activities before interest	2	**331**	**(88)**	**243**	483	(264)	219
Interest receivable		**48**	**22**	**70**	104	–	104
Interest payable and similar charges	8	**(70)**	**(16)**	**(86)**	(151)	–	(151)
Premium on early settlement of debt	7	**–**	**(17)**	**(17)**	–	(136)	(136)
Profit on ordinary activities before taxation		**309**	**(99)**	**210**	436	(400)	36
Tax on profit on ordinary activities	9	**(50)**	**167**	**117**	(115)	132	17
Profit on ordinary activities after taxation		**259**	**68**	**327**	321	(268)	53
Minority equity interests		**(28)**	**–**	**(28)**	(34)	–	(34)
Earnings available for shareholders		**231**	**68**	**299**	287	(268)	19
Dividends on equity shares	10	**(592)**	**–**	**(592)**	(156)	–	(156)
Retained (loss)/profit for the period	31	**(361)**	**68**	**(293)**	131	(268)	(137)
Earnings per ordinary share:	11						
Basic		**–**	**–**	**42.1p**	–	–	2.6p
Diluted		**–**	**–**	**41.6p**	–	–	2.6p
Adjusted		**32.5p**	**–**	**–**	39.1p	–	–

* Restated to show exceptional tax credits on a basis consistent with 2004, comprising prior year adjustments which are exceptional by reason of their size or incidence.

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

Notes on pages 42 to 66 form an integral part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GROUP GAINS AND LOSSES

for the 12 months ended 31 December 2004	2004 12 months £m	2003 15 months £m
Earnings available for shareholders	**299**	19
Reversal of previous revaluation gains due to impairment	**(20)**	(22)
Exchange differences*		
Goodwill eliminated (see note 32)	**(110)**	(139)
Other assets and liabilities	**(21)**	79
Other recognised losses	**(151)**	(82)
Total recognised gains and losses for the period	**148**	(63)

NOTE OF HISTORICAL COST GROUP PROFITS AND LOSSES

for the 12 months ended 31 December 2004	2004 12 months £m	2003 15 months £m
Reported profit on ordinary activities before taxation	**210**	36
Realisation of revaluation gains of previous periods	**3**	16
Historical cost profit on ordinary activities before taxation	**213**	52
Historical cost loss retained after taxation, minority equity interests and dividends	**(290)**	(121)

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

for the 12 months ended 31 December 2004	2004 12 months £m	2003 15 months £m
Earnings available for shareholders	**299**	19
Dividends	**(592)**	(156)
	(293)	(137)
Other recognised losses	**(151)**	(82)
Issue of ordinary shares	**16**	18
Net assets of MAB eliminated on Separation	**–**	(2,777)
MAB goodwill eliminated on Separation	**–**	50
Minority interest on transfer of pension prepayment	**–**	(7)
Purchase of own shares	**(257)**	–
Purchase of own shares by employee share trusts	**(33)**	–
Credit in respect of employee share schemes	**15**	–
Release of own shares by employee share trusts	**16**	15
Movement in goodwill – exchange differences*	**110**	139
Net movement in shareholders' funds	**(577)**	(2,781)
Opening shareholders' funds	**2,554**	5,335
Closing shareholders' funds	**1,977**	2,554

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

Notes on pages 42 to 66 form an integral part of these financial statements.

Financial statements

GROUP CASH FLOW STATEMENT

for the 12 months ended 31 December 2004	note	2004 12 months £m	2004 12 months £m	2003 15 months £m	2003 15 months £m
Operating activities	12		**515**		795
Interest paid		**(91)**		(141)	
Costs associated with new facilities		**(5)**		(20)	
Premium on early settlement of debt		**(17)**		(136)	
Dividends paid to minority shareholders		**(26)**		(22)	
Interest received		**72**		111	
Returns on investments and servicing of finance			**(67)**		(208)
UK corporation tax (paid)/received		**(4)**		25	
Overseas corporate tax paid		**(31)**		(21)	
Taxation			**(35)**		4
Paid: Intangible fixed assets		**–**		(10)	
Tangible fixed assets		**(245)**		(475)	
Fixed asset investments		**(12)**		(37)	
Received: Tangible fixed assets		**101**		265	
Fixed asset investments		**5**		9	
Capital expenditure and financial investment	14		**(151)**		(248)
Separation costs		**–**		(66)	
Acquisitions and disposals			**–**		(66)
Equity dividends			**(600)**		(299)
Net cash flow			**(338)**		(22)
Management of liquid resources	16		**320**		(129)
Financing	16		**–**		206
Movement in cash and overdrafts			**(18)**		55

Notes on pages 42 to 66 form an integral part of these financial statements.

BALANCE SHEETS

31 December 2004	note	Group 31 Dec 2004 £m	Group 31 Dec 2003 £m	Company 31 Dec 2004 £m	Company 31 Dec 2003 £m
Fixed assets					
Intangible assets	18	**142**	158	**–**	–
Tangible assets	19	**3,776**	3,951	**–**	–
Investments	20	**99**	172	**759**	1,161
		4,017	4,281	**759**	1,161
Current assets					
Stocks	21	**42**	44	**–**	–
Debtors	22	**556**	523	**335**	367
analysed as:					
Amounts falling due within one year		**419**	447	**335**	367
Amounts falling due after one year		**137**	76	**–**	–
Investments	23	**116**	377	**–**	–
Cash at bank and in hand		**43**	55	**–**	3
		757	999	**335**	370
Creditors: amounts falling due within one year	24	**(1,013)**	(1,085)	**(91)**	(75)
Net current (liabilities)/assets		**(256)**	(86)	**244**	295
Total assets less current liabilities		**3,761**	4,195	**1,003**	1,456
Creditors: amounts falling due after one year	25	**(1,252)**	(1,085)	**–**	(420)
Provisions for liabilities and charges		**(382)**	(393)	**–**	–
analysed as:					
Deferred taxation	26	**(248)**	(314)	**–**	–
Other provisions	27	**(134)**	(79)	**–**	–
Minority equity interests		**(150)**	(163)	**–**	–
Net assets	17	**1,977**	2,554	**1,003**	1,036
Capital and reserves					
Equity share capital	30	**697**	739	**697**	739
Share premium account	31	**26**	14	**26**	14
Revaluation reserve	31	**233**	258	**–**	–
Capital redemption reserve	31	**46**	–	**46**	–
Merger reserve	31	**1,164**	1,164	**–**	–
Other reserve	31	**(22)**	(11)	**(22)**	(11)
Profit and loss account	31	**(167)**	390	**256**	294
Equity shareholders' funds		**1,977**	2,554	**1,003**	1,036

Signed on behalf of the Board

Richard Solomons
9 March 2005

Notes on pages 42 to 66 form an integral part of these financial statements.

Accounting policies

BASIS OF PREPARATION

The Group profit and loss account has been prepared by reference to Format 1 as set out in Schedule 4 of the Companies Act 1985. This is considered more appropriate to the Group post Separation than the format used in previous years. Prior year comparatives have been restated on a consistent basis.

BASIS OF ACCOUNTING

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain tangible fixed assets. They have been drawn up to comply with applicable accounting standards.

BASIS OF CONSOLIDATION

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

FOREIGN CURRENCIES

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

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

TREASURY INSTRUMENTS

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

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

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

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

FIXED ASSETS AND DEPRECIATION

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

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

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

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

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

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

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

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

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

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

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

DEFERRED TAXATION

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

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

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

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

LEASES

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

PENSIONS

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

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

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

SELF INSURANCE

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

STOCKS

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

TRADE DEBTORS

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

REVENUE RECOGNITION

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

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

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

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

Accounting policies

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

LOYALTY PROGRAMME

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

USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

GLOSSARY

Additional information concerning terms used in these financial statements can be found in the glossary on page 76.

Notes to the financial statements

1 EXCHANGE RATES

The results of overseas operations have been translated into sterling at weighted average rates of exchange for the period. In the case of the US dollar, the translation rate is £1 = $1.82 (2003 £1 = $1.62). In the case of the euro, the translation rate is £1 = €1.47 (2003 £1 = €1.47).

Foreign currency denominated assets and liabilities have been translated into sterling at the rates of exchange on the last day of the period. In the case of the US dollar, the translation rate is £1 = $1.93 (2003 £1 = $1.78). In the case of the euro, the translation rate is £1 = €1.41 (2003 £1 = €1.41).

2 TURNOVER AND PROFIT

	InterContinental Hotels Group PLC†								
12 months ended 31 December 2004*	**Americas £m**	**EMEA £m**	**Asia Pacific £m**	**Central £m**	**Total Hotels £m**	**Soft Drinks £m**	**Total £m**	**Dis-continued† £m**	**Total Group £m**
Turnover	**495**	**829**	**134**	**40**	**1,498**	**706**	**2,204**	**–**	**2,204**
Operating profit before exceptional items	**163**	**119**	**21**	**(52)**	**251**	**80**	**331**	**–**	**331**
Operating exceptional items	**(14)**	**(19)**	**(4)**	**18**	**(19)**	**–**	**(19)**	**–**	**(19)**
Operating profit	**149**	**100**	**17**	**(34)**	**232**	**80**	**312**	**–**	**312**
Non-operating exceptional items:									
Provision for loss on disposal of operations	**(9)**	**(65)**	**–**	**–**	**(74)**	**–**	**(74)**	**–**	**(74)**
(Loss)/profit on disposal of fixed assets	**(1)**	**14**	**2**	**–**	**15**	**–**	**15**	**–**	**15**
Provision against fixed asset investments	**8**	**(16)**	**(2)**	**–**	**(10)**	**–**	**(10)**	**–**	**(10)**
Profit on ordinary activities before interest	**147**	**33**	**17**	**(34)**	**163**	**80**	**243**	**–**	**243**
15 months ended 31 December 2003*									
Turnover	661	1,010	148	51	1,870	820	2,690	793	3,483
Operating profit before exceptional items	195	114	22	(80)	251	95	346	137	483
Operating exceptional item	(9)	(41)	(1)	–	(51)	–	(51)	–	(51)
Operating profit	186	73	21	(80)	200	95	295	137	432
Non-operating exceptional items:									
Cost of fundamental reorganisation	(11)	(17)	(2)	(37)	(67)	–	(67)	–	(67)
Separation costs	–	–	–	(51)	(51)	–	(51)	(41)	(92)
Profit/(loss) on disposal of fixed assets	10	(6)	–	–	4	–	4	(2)	2
Provision against fixed asset investments	(9)	–	–	(47)	(56)	–	(56)	–	(56)
Profit on ordinary activities before interest	176	50	19	(215)	30	95	125	94	219

* Other than for Soft Drinks which reflects the 53 weeks ended 25 December (2003 64 weeks ended 20 December) and, in 2003, Mitchells & Butlers plc which reflects the 28 weeks ended 12 April.

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

Notes to the financial statements

2 TURNOVER AND PROFIT (CONTINUED)

12 months ended 31 December 2004*	Turnover By origin £m	Turnover By destination £m	Profit on ordinary activities before interest £m
United Kingdom	**1,126**	**1,103**	**60**
Rest of Europe, the Middle East and Africa	**419**	**442**	**26**
United States of America	**423**	**423**	**110**
Rest of Americas	**102**	**102**	**30**
Asia Pacific	**134**	**134**	**17**
	2,204	**2,204**	**243**
15 months ended 31 December 2003*			
United Kingdom	2,131	2,124	117
Rest of Europe, the Middle East and Africa	506	513	(7)
United States of America	571	571	63
Rest of Americas	127	127	28
Asia Pacific	148	148	18
	3,483	3,483	219

* Other than for Soft Drinks which reflects the 53 weeks ended 25 December (2003 64 weeks ended 20 December) and, in 2003, Mitchells & Butlers plc which reflects the 28 weeks ended 12 April.

3 OPERATING PROFIT	2004 12 months Total £m	2003 15 months Continuing operations £m	2003 15 months Discontinued operations* £m	2003 15 months Total £m
Operating profit is stated after charging:				
Staff costs	**659**	815	198	1,013
Depreciation of tangible fixed assets	**188**	236	54	290
Impairment of tangible fixed assets	**28**	51	–	51
Amortisation of goodwill	**10**	13	–	13
Hire of plant and machinery	**14**	18	17	35
Property rentals	**53**	65	24	89
Income from fixed asset investments	**(1)**	(3)	–	(3)

* Relates to Mitchells & Butlers plc.

Auditors' remuneration paid to Ernst & Young LLP	2004 12 months £m	2003 15 months £m
Audit fees	**3.8**	2.8
Audit related fees	**1.6**	7.2
Tax fees	**0.5**	1.2
	5.9	11.2

Audit related fees include £nil (2003 £6.3m) in relation to the Separation and bid defence. These costs have been charged to exceptional items (see note 7). Non-audit fees payable for UK services were £1.1m (2003 £6.6m).

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

4 STAFF	2004 12 months £m	2003 15 months £m
Costs:		
Wages and salaries	**570**	884
Social security costs	**66**	96
Pensions (see note 5)	**23**	33
	659	1,013

Average number of employees, including part-time employees	2004 12 months	2003 15 months
Hotels	**26,835**	27,111
Soft Drinks	**2,824**	2,698
InterContinental Hotels Group PLC*	**29,659**	29,809
Discontinued operations*	**–**	15,014
	29,659	44,823

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

5 PENSIONS	2004 12 months £m	2003 15 months £m
Regular cost	**16**	33
Variations from regular cost	**(2)**	(7)
Notional interest on prepayment	**(3)**	(4)
Pension cost in respect of the principal plans	**11**	22
Other plans	**12**	11
	23	33

Retirement and death benefits are provided for eligible Group employees in the United Kingdom principally by the InterContinental Hotels UK Pension Plan which covers approximately 1,700 employees and the Britvic Pension Plan which covers approximately 2,400 employees. The plans are predominantly defined benefit schemes for current members. For new entrants, the plans provide defined contribution benefits. The assets of the plans are held in self-administered trust funds separate from the Group's assets. The Group also maintains a US-based InterContinental Hotels Pension Plan. This plan is now closed to new members and pensionable service no longer accrues for current employee members. In addition, the Group operates a number of minor pension schemes outside the United Kingdom, the most significant of which is a defined contribution scheme in the United States; there is no material difference between the pension costs of, and contributions to, these schemes.

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

The Group continues to account for its defined benefit obligations in accordance with SSAP 24. The pension costs related to the two UK principal plans are assessed in accordance with the advice of independent qualified actuaries using the projected unit method. They reflect the 31 March 2004 actuarial valuations of the InterContinental Hotels UK Pension Plan and the Britvic Pension Plan. The significant assumptions in these valuations were that wages and salaries increase on average by 4.3% per annum, the long-term return on assets is 6.5% per annum, and pensions increase by 2.8% per annum. The average expected remaining service life of current employees is 12 years.

At 31 March 2004, the market value of the combined assets of the InterContinental Hotels UK Pension Plan was £148m and the Britvic Pension Plan was £240m and the value of the assets was sufficient to cover 80% and 75%, respectively, of the benefits that had accrued to members after allowing for expected increases in earnings.

In the period to 31 December 2004, the Group made regular contributions to the two UK principal plans of £12m and additional contributions of £60m. The agreed employer contribution rates to the defined benefit arrangements for the year to 31 December 2005 are 15.6% for the staff section of the InterContinental Hotels UK Pension Plan, 31.4% for the executive section, 16.9% for the staff section of the Britvic Pension Plan and 32.3% for the executive section.

Notes to the financial statements

5 PENSIONS (CONTINUED)

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

FRS 17 disclosures The valuations used for FRS 17 disclosures are based on the results of the actuarial valuations at 31 March 2004 updated by independent qualified actuaries to 31 December 2004. Scheme assets are stated at market value at 31 December 2004 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. As the principal plans are now closed as defined benefit schemes, the current service cost as calculated under the projected unit method will increase as members approach retirement.

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

	31 Dec 2004		31 Dec 2003		30 Sept 2002	
	UK %	**US %**	UK %	US %	UK %	US %
Wages and salaries increases	**4.3**	**–**	4.3	–	3.8	–
Pensions increases	**2.8**	**–**	2.8	–	2.3	–
Discount rate	**5.3**	**5.8**	5.4	6.3	5.5	6.8
Inflation rate	**2.8**	**–**	2.8	–	2.3	–

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

	31 Dec 2004		31 Dec 2003		30 Sept 2002	
UK Schemes	**Long-term rate of return expected %**	**Value £m**	Long-term rate of return expected %	Value £m	Long-term rate of return expected %	Value £m
Equities	**8.0**	**272**	8.0	238	8.0	507
Bonds	**4.9**	**173**	5.4	117	4.7	397
Other	**8.0**	**27**	–	–	8.0	92
Total market value of assets		**472**		355		996

	31 Dec 2004		31 Dec 2003		30 Sept 2002	
US Schemes	**Long-term rate of return expected %**	**Value £m**	Long-term rate of return expected %	Value £m	Long-term rate of return expected %	Value £m
Equities	**9.6**	**34**	9.2	29	11.2	27
Bonds	**5.5**	**22**	6.0	19	6.2	22
Total market value of assets		**56**		48		49

	31 Dec 2004			31 Dec 2003	30 Sept 2002
	UK £m	**US £m**	**Total £m**	Total £m	Total £m
Total market value of assets	**472**	**56**	**528**	403	1,045
Present value of scheme liabilities	**(600)**	**(100)**	**(700)**	(579)	(1,415)
Deficit in the scheme	**(128)**	**(44)**	**(172)**	(176)	(370)
Related deferred tax asset	**40**	**17**	**57**	58	116
Net pension liability	**(88)**	**(27)**	**(115)**	(118)	(254)

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

	2004 12 months			2003 15 months
Operating profit charge	**UK £m**	**US £m**	**Total £m**	Total £m
Current service cost	**18**	**–**	**18**	32
Past service cost	**1**	**–**	**1**	2
Total operating profit charge	**19**	**–**	**19**	34

5 PENSIONS (CONTINUED)

Finance income	2004 12 months UK £m	2004 12 months US £m	2004 12 months Total £m	2003 15 months Total £m
Expected return on pension scheme assets	27	4	31	54
Interest on pension scheme liabilities	(27)	(6)	(33)	(61)
Net expense	–	(2)	(2)	(7)

Items recognised in the Statement of Total Recognised Group Gains and Losses (STRGL)	2004 12 months UK £m	2004 12 months US £m	2004 12 months Total £m	2003 15 months Total £m
Actuarial loss:				
Actual return less expected return on pension scheme assets	11	1	12	37
Experience gains and losses arising on scheme liabilities	13	–	13	(18)
Changes in assumptions underlying the present value of scheme liabilities	(70)	(6)	(76)	(121)
Actuarial loss recognised in the STRGL	(46)	(5)	(51)	(102)
Other:				
Deficit transferred in respect of previous acquisitions	6	–	6	–
Exchange adjustments	–	(4)	(4)	(8)

Movement in deficit during the period	2004 12 months UK £m	2004 12 months US £m	2004 12 months Total £m	2003 15 months Total £m
At start of period	(122)	(54)	(176)	(370)
Current service cost	(18)	–	(18)	(32)
Past service cost	(1)	–	(1)	(2)
Contributions	72	13	85	41
Finance income	–	(2)	(2)	(7)
Actuarial loss	(46)	(5)	(51)	(102)
Deficit transferred in respect of previous acquisitions*	(13)	–	(13)	–
Separation of MAB	–	–	–	288
Exchange adjustments	–	4	4	8
At end of period	(128)	(44)	(172)	(176)

* Relates to the acquisition of Posthouse hotels in 2001.

History of experience gains and losses	2004 12 months UK	2004 12 months US	2004 12 months Total	2003 15 months Total
Difference between the expected and actual return on scheme assets:				
Amount (£m)	11	1	12	37
Percentage of scheme assets	2%	2%	2%	9%
Experience gains and losses on scheme liabilities:				
Amount (£m)	13	–	13	(18)
Percentage of the present value of scheme liabilities	2%	–	2%	(3%)
Total amount recognised in the STRGL:				
Amount (£m)	(46)	(5)	(51)	(102)
Percentage of the present value of scheme liabilities	(8%)	(5%)	(7%)	(18%)

Group net assets and reserves reconciliation	31 Dec 2004 Net assets £m	31 Dec 2004 Profit and loss account reserve £m	31 Dec 2003 Net assets £m	31 Dec 2003 Profit and loss account reserve £m
As reported	1,977	(167)	2,554	390
Less: SSAP 24 pension prepayment (net of tax of £23m (2003 £14m))	(87)	(87)	(33)	(33)
SSAP 24 pension provision (net of tax of £18m (2003 £16m))	31	31	30	30
FRS 17 net pension liability	(115)	(115)	(118)	(118)
Restated for FRS 17	1,806	(338)	2,433	269

Notes to the financial statements

6 DIRECTORS' EMOLUMENTS

	2004 12 months £000	2003 15 months £000
Basic salaries, fees, performance payments and benefits*	**3,426**	6,068
Long-term reward	**553**	1,338
Gains on exercise of share options	**–**	69

More detailed information on the emoluments, pensions, option holdings and shareholdings for each director is shown in the Remuneration Report on pages 29 to 37.

* Includes long-term reward.

7 EXCEPTIONAL ITEMS

	note	2004 12 months £m	2003 15 months restated* £m
Operating exceptional items			
Continuing operations:			
Cost of sales – impairment of fixed assets	a	**(28)**	(51)
Administrative expenses	b	**(11)**	–
Other operating income	c	**20**	–
		(19)	(51)
Non-operating exceptional items			
Continuing operations:			
Cost of fundamental reorganisation	d	**–**	(67)
Separation costs	e	**–**	(51)
Profit on disposal of fixed assets		**15**	4
Provision for loss on disposal of operations	f	**(74)**	–
Provision against fixed asset investments	g	**(10)**	(56)
		(69)	(170)
Discontinued operations:†			
Separation costs	e	**–**	(41)
Loss on disposal of fixed assets		**–**	(2)
		–	(43)
Total non-operating exceptional items		**(69)**	(213)
Total exceptional items before interest and taxation		**(88)**	(264)
Interest receivable	h	**22**	–
Interest payable	i	**(16)**	–
Premium on early settlement of debt	j	**(17)**	(136)
Tax credit on above items		**6**	64
Exceptional tax credit	k	**161**	68
Total exceptional items after interest and taxation		**68**	(268)

a Tangible fixed assets were written down by £48m (2003 £73m) following an impairment review of the hotel estate. £28m (2003 £51m) was charged above as an operating exceptional item and £20m (2003 £22m) reversed previous revaluation gains.

b Administrative expenses include a charge of £11m related to the delivery of the further restructuring of the Hotels business in conjunction with the asset disposal programme.

c Adjustment to market valuation of the Group's investment in FelCor Lodging Trust Inc.

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

e Relates to costs incurred for the bid defence and Separation of Six Continents PLC.

f Provision for the loss on disposal of 13 hotels in the Americas and 73 hotels in the United Kingdom.

g Relates to a provision for diminution in value of certain fixed asset investments and reflects the directors' view of the fair value of the holdings.

h Relates to interest received on exceptional tax refunds.

i Relates to costs of closing out swaps and costs related to refinancing the Group's debt.

j Relates to the premiums paid on the repurchase of the Group's public debt.

k Represents the release of provisions relating to tax matters which have been settled or in respect of which the relevant statutory limitation period has expired, principally relating to acquisitions (including provisions relating to pre-acquisition periods) and disposals, intra-group financing and, in 2004, the recognition of a deferred tax asset of £83m in respect of capital losses.

* Restated to show exceptional tax credits on a basis consistent with 2004, comprising prior year adjustments which are exceptional by reason of their size or incidence.

† Discontinued operations relate to Mitchells & Butlers plc.

8 INTEREST PAYABLE AND SIMILAR CHARGES

	2004 12 months £m	2003 15 months £m
Bank loans and overdrafts	**16**	38
Other	**70**	113
	86	151

9 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2004 12 months			2003 15 months restated*
	Before exceptional items £m	Exceptional items £m	Total £m	Total £m
Tax charge				
UK corporation tax at 30% (2003 30%):				
Current year	**32**	**(9)**	**23**	4
Prior years	**(22)**	**(26)**	**(48)**	(80)
	10	**(35)**	**(25)**	(76)
Foreign tax:				
Current year	**50**	**1**	**51**	69
Prior years	**(29)**	**(52)**	**(81)**	(20)
	21	**(51)**	**(30)**	49
Total current tax	**31**	**(86)**	**(55)**	(27)
Deferred tax:				
Origination and reversal of timing differences	**31**	**2**	**33**	30
Adjustments to estimated recoverable deferred tax assets	**–**	**–**	**–**	(11)
Prior years	**(12)**	**(83)**	**(95)**	(9)
Total deferred tax	**19**	**(81)**	**(62)**	10
Tax on profit on ordinary activities	**50**	**(167)**	**(117)**	(17)
Further analysed as tax relating to:				
Profit before exceptional items	**50**	**–**	**50**	115
Operating exceptional items: Administrative expenses	**–**	**(3)**	**(3)**	–
Non-operating exceptional items (see note 7):				
Continuing operations:				
Cost of fundamental reorganisation	**–**	**(5)**	**(5)**	(8)
Profit on disposal of fixed assets	**–**	**5**	**5**	–
Separation costs	**–**	**–**	**–**	(6)
Provision against fixed asset investments	**–**	**–**	**–**	(5)
	–	**–**	**–**	(19)
Discontinued operations: Separation costs	**–**	**–**	**–**	(4)
Total non-operating exceptional items	**–**	**–**	**–**	(23)
Interest	**–**	**2**	**2**	–
Premium on early settlement of debt	**–**	**(5)**	**(5)**	(41)
Total exceptional items	**–**	**(6)**	**(6)**	(64)
Exceptional tax credit (see note 7)	**–**	**(161)**	**(161)**	(68)
	50	**(167)**	**(117)**	(17)

* Restated to show exceptional tax credits on a basis consistent with 2004, comprising prior year adjustments which are exceptional by reason of their size or incidence.

Notes to the financial statements

9 TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

	2004 12 months Before exceptional items %	2004 12 months Total %	2003 15 months restated* Total %
Tax reconciliation			
UK corporation tax standard rate	**30.0**	**30.0**	30.0
Permanent differences	**(0.2)**	**(0.3)**	20.7
Capital allowances in excess of depreciation	**(4.7)**	**(6.9)**	(12.6)
Other timing differences	**(5.0)**	**(7.4)**	(104.2)
Net effect of different rates of tax in overseas businesses	**6.3**	**9.2**	46.1
Adjustment to tax charge in respect of prior years	**(16.4)**	**(24.1)**	(88.9)
Other	**0.1**	**0.2**	2.0
Exceptional items	**–**	**(26.2)**	32.2
Effective current tax rate	**10.1**	**(25.5)**	(74.7)

* Restated to show exceptional tax credits on a basis consistent with 2004, comprising prior year adjustments which are exceptional by reason of their size or incidence.

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

10 DIVIDENDS

	2004 12 months pence per share	2003 15 months pence per share	2004 12 months £m	2003 15 months £m
Dividends on ordinary shares:				
Interim Six Continents PLC	**–**	7.65	**–**	56
Interim InterContinental Hotels Group PLC	**4.30**	4.05	**29**	30
Special interim dividend InterContinental Hotels Group PLC	**72.00**	–	**501**	–
Proposed final InterContinental Hotels Group PLC	**10.00**	9.45	**62**	70
	86.30	21.15	**592**	156

The proposed final dividend is payable on the shares in issue at 1 April 2005.

11 EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share is calculated by dividing the earnings available for shareholders of £299m (2003 £19m) by 710m (2003 733m), being the weighted average number of ordinary shares, excluding investment in own shares, in issue during the period.

Diluted earnings per ordinary share is calculated by adjusting basic earnings per ordinary share to reflect the notional exercise of the weighted average number of dilutive ordinary share options outstanding during the period. The resulting weighted average number of ordinary shares is 718m (2003 733m).

On 10 December 2004, shareholders approved a share capital consolidation on the basis of 25 new ordinary shares for every 28 existing ordinary shares, together with a special dividend of 72 pence per existing share. The overall effect of the transaction was that of a share repurchase at fair value, therefore no adjustment has been made to comparative data.

Adjusted earnings per ordinary share is calculated as follows:

	note	**2004 12 months pence per ordinary share**	2003 15 months restated* pence per ordinary share
Basic earnings		**42.1**	2.6
Exceptional items, less tax thereon	7, 9	**13.1**	45.8
Exceptional tax credit	7	**(22.7)**	(9.3)
Adjusted earnings		**32.5**	39.1

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

* Restated to show exceptional tax credits on a basis consistent with 2004, comprising prior year adjustments which are exceptional by reason of their size or incidence.

12 CASH FLOW FROM OPERATING ACTIVITIES

	note	**2004 12 months £m**	2003 15 months £m
Operating profit before exceptional items		**331**	483
Depreciation and amortisation		**198**	303
Earnings before interest, taxation, depreciation and amortisation and exceptional items		**529**	786
Other non-cash items		**12**	(2)
Decrease/(increase) in stocks		**1**	(1)
Increase in debtors		**(11)**	(10)
Increase in creditors		**75**	69
Special pension contributions		**(71)**	–
Provisions expended	26	**(3)**	(10)
Operating activities before expenditure relating to exceptional items		**532**	832
Cost of fundamental reorganisation	26	**(17)**	(37)
Operating activities		**515**	795
Net capital expenditure	14	**(151)**	(248)
Operating cash flow	15	**364**	547

Notes to the financial statements

13 NET DEBT

	Cash and overdrafts			Liquid resources	Financing		
	Cash at bank and in hand £m	Overdrafts £m	Total £m	Current asset investments £m	Other borrowings due within one year £m	Other borrowings due after one year £m	Total £m
At 31 December 2003	55	(5)	50	377	(8)	(988)	(569)
Net cash flow	(332)	(6)	(338)*	–	–	–	(338)
Management of liquid resources and financing	320	–	320*	(320)	(22)	(236)	(258)
Exchange and other adjustments	–	–	–	(17)	(2)	68	49
At 31 December 2004	**43**	**(11)**	**32**	**40**	**(32)**	**(1,156)**	**(1,116)**
At 30 September 2002	84	(66)	18	218	(782)	(631)	(1,177)
Net cash flow	(86)	64	(22)*	–	–	–	(22)
Management of liquid resources and financing	77	–	77*	129	758	(369)	595
Separation of MAB	(7)	–	(7)	(7)	4	–	(10)
Exchange and other adjustments	(13)	(3)	(16)	37	12	12	45
At 31 December 2003	55	(5)	50	377	(8)	(988)	(569)

Currency swaps are included within current asset investments in 2003 and within other borrowings in 2004.

* Represents a movement in cash and overdrafts of £18m outflow (2003 £55m inflow) (see Group cash flow statement).

14 NET CAPITAL EXPENDITURE

		2004 12 months £m	2003 15 months £m
Hotels capital expenditure	Americas	**60**	73
	EMEA	**95**	237
	Asia Pacific	**20**	43
	Central	**12**	24
		187	377
Hotels disposal proceeds		**(106)**	(255)
Hotels net capital expenditure		**81**	122
Soft Drinks		**70**	65
InterContinental Hotels Group PLC*		**151**	187
Discontinued operations*		**–**	61
		151	248

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

15 OPERATING CASH FLOW

	2004 12 months £m	2003 15 months £m
Hotels	**291**	336
Soft Drinks	**73**	59
InterContinental Hotels Group PLC*	**364**	395
Discontinued operations*	**–**	152
	364	547

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

16 MANAGEMENT OF LIQUID RESOURCES AND FINANCING

	2004 12 months £m	2003 15 months £m
New borrowings*	**9,666**	18,672
Other borrowings repaid*	**(9,408)**	(19,061)
	258	(389)
Debt assumed by MAB	**–**	577
Ordinary shares issued	**16**	18
Purchase of own shares	**(257)**	–
Purchase of own shares by employee share trusts	**(33)**	–
Proceeds on release of shares by employee share trusts	**16**	–
Financing	**–**	206
Movement in liquid resources†	**320**	(129)
	320	77

* Includes amounts rolled over under bank loan facilities.

† Liquid resources primarily comprise short-term deposits of less than one year, short-term investments and, in 2003, currency swaps.

17 ASSETS

		31 Dec 2004 Total £m	31 Dec 2004 Net operating £m	31 Dec 2003 Total £m	31 Dec 2003 Net operating £m
Hotels	Americas	**1,073**	**765**	1,146	859
	EMEA	**2,755**	**2,334**	3,183	2,422
	Asia Pacific	**444**	**414**	481	457
		4,272	**3,513**	4,810	3,738
Soft Drinks		**502**	**306**	470	300
		4,774	**3,819**	5,280	4,038
Non-operating assets:					
Current asset investments			**40**		377
Cash at bank and in hand			**43**		55
Corporate taxation			**14**		37
Non-operating liabilities:					
Borrowings			**(1,199)**		(1,001)
Proposed dividend of parent company			**(62)**		(70)
Proposed dividend for minority shareholders			**(19)**		(16)
Corporate taxation			**(261)**		(389)
Deferred taxation			**(248)**		(314)
Minority equity interests			**(150)**		(163)
		4,774	**1,977**	5,280	2,554
United Kingdom		**1,972**	**1,512**	2,329	1,586
Rest of Europe, the Middle East and Africa		**1,285**	**1,128**	1,324	1,136
United States of America		**958**	**667**	1,020	751
Rest of Americas		**115**	**98**	126	108
Asia Pacific		**444**	**414**	481	457
		4,774	**3,819**	5,280	4,038
Net non-operating liabilities			**(1,842)**		(1,484)
		4,774	**1,977**	5,280	2,554

Notes to the financial statements

18 INTANGIBLE FIXED ASSETS

	Goodwill £m
Cost:	
At 31 December 2003	192
Exchange and other adjustments	(8)
At 31 December 2004	**184**
Amortisation:	
At 31 December 2003	34
Provided	10
Exchange adjustments	(2)
At 31 December 2004	**42**
Net book value:	
At 31 December 2004	**142**
At 31 December 2003	158

19 TANGIBLE FIXED ASSETS

	Hotels £m	Soft Drinks £m	Total Group £m
Cost or valuation:			
At 31 December 2003	4,375	451	4,826
Exchange and other adjustments	(95)	–	(95)
Additions	177	72	249
Disposals	(142)	(40)	(182)
Impairment	(20)	–	(20)
At 31 December 2004	**4,295**	**483**	**4,778**
Depreciation:			
At 31 December 2003	660	215	875
Exchange and other adjustments	(16)	–	(16)
Provided	144	44	188
On disposals	(35)	(38)	(73)
Impairment	28	–	28
At 31 December 2004	**781**	**221**	**1,002**
Net book value:			
At 31 December 2004	**3,514**	**262**	**3,776**
At 31 December 2003	3,715	236	3,951

Tangible fixed assets have been written down in total by £48m following an impairment review of the hotel estate. The impairment has been measured by reference to the value of income-generating units, using either the higher of value in use or estimated recoverable amount. The discount rates used for value in use calculations ranged from 8.0% to 10.5%.

Properties

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

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

19 TANGIBLE FIXED ASSETS (CONTINUED)

Historical cost

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

	Group	
	31 Dec 2004 £m	31 Dec 2003 £m
Cost	**2,667**	2,771
Depreciation	**(205)**	(177)
Net book value	**2,462**	2,594

	Land and buildings £m	**Fixtures, fittings and equipment £m**	**Plant and machinery £m**	**Total Group £m**
Cost or valuation:				
At 31 December 2003	3,004	1,657	165	4,826
Exchange and other adjustments	(59)	(36)	–	(95)
Additions	50	172	27	249
Disposals	(83)	(89)	(10)	(182)
Impairment	(20)	–	–	(20)
At 31 December 2004	**2,892**	**1,704**	**182**	**4,778**
Depreciation:				
At 31 December 2003	168	610	97	875
Exchange and other adjustments	(6)	(10)	–	(16)
Provided	14	156	18	188
On disposals	(11)	(52)	(10)	(73)
Impairment	28	–	–	28
At 31 December 2004	**193**	**704**	**105**	**1,002**
Net book value:				
At 31 December 2004	**2,699**	**1,000**	**77**	**3,776**
At 31 December 2003	2,836	1,047	68	3,951

		31 Dec 2004			
Land and buildings		**Cost or valuation £m**	**Depreciation £m**	**Net book value £m**	31 Dec 2003 £m
Freehold		**2,036**	**(130)**	**1,906**	2,002
Leasehold:	unexpired term of more than 50 years	**636**	**(32)**	**604**	800
	unexpired term of 50 years or less	**220**	**(31)**	**189**	34
		2,892	**(193)**	**2,699**	2,836
Cost or valuation of properties comprises:					
1999 valuation		**1,517**			
1992 valuation		**22**			
Cost		**1,353**			
		2,892			

Notes to the financial statements

20 FIXED ASSET INVESTMENTS

	Group	Company		
	Investments £m	Shares in Group undertakings £m	Loans to Group undertakings £m	Total £m
Cost:				
At 31 December 2003	341	741	420	1,161
Exchange and other adjustments	(13)	–	(3)	(3)
Reclassification to current asset investments*	(195)	–	–	–
Additions	11	–	–	–
Disposals and repayments	(7)	–	(399)	(399)
At 31 December 2004	**137**	**741**	**18**	**759**
Provision for diminution in value:				
At 31 December 2003	169	–	–	–
Exchange adjustments	(5)	–	–	–
Reclassification to current asset investments*	(133)	–	–	–
Provisions made	13	–	–	–
Provisions written back	(6)	–	–	–
At 31 December 2004	**38**	**–**	**–**	**–**
Net book value:				
At 31 December 2004	**99**	**741**	**18**	**759**
At 31 December 2003	172	741	420	1,161

* Relates to the Group's investment in FelCor Lodging Trust Inc.

Investments	**31 Dec 2004**		31 Dec 2003	
	Cost less amount written off £m	**Market value £m**	Cost less amount written off £m	Market value £m
Group				
Listed investments	**1**	**4**	64	66
Unlisted investments	**98**		108	
	99		172	

All listed investments are listed on a recognised investment exchange.

21 STOCKS

	Group	
	31 Dec 2004 £m	31 Dec 2003 £m
Raw materials	**9**	9
Finished stocks	**23**	21
Consumable stores	**10**	14
	42	44

22 DEBTORS

	Group				Company	
	31 Dec 2004		31 Dec 2003			
	Total £m	**After one year £m**	Total £m	After one year £m	**31 Dec 2004 £m**	31 Dec 2003 £m
Trade debtors	**285**	**–**	277	–	**–**	–
Amounts owed by Group undertakings	**–**	**–**	–	–	**330**	367
Other debtors	**100**	**25**	104	17	**–**	–
Corporate taxation	**14**	**–**	37	7	**5**	–
Pension prepayment	**110**	**110**	47	47	**–**	–
Other prepayments	**47**	**2**	58	5	**–**	–
	556	**137**	523	76	**335**	367

23 CURRENT ASSET INVESTMENTS

	Group 31 Dec 2004 £m	Group 31 Dec 2003 £m
Equity investments	**76**	–
Other	**40**	377
	116	377

24 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	31 Dec 2004 £m	31 Dec 2003 £m	**31 Dec 2004 £m**	31 Dec 2003 £m
Borrowings (see note 28)	**43**	13	**28**	–
Trade creditors	**159**	133	**–**	–
Amounts due to Group undertakings	**–**	–	**1**	–
Corporate taxation	**261**	389	**–**	–
Other taxation and social security	**50**	46	**–**	–
Accrued charges	**232**	235	**–**	5
Proposed dividend of parent company	**62**	70	**62**	70
Proposed dividend for minority shareholders	**19**	16	**–**	–
Other creditors	**187**	183	**–**	–
	1,013	1,085	**91**	75

25 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	Group		Company	
	31 Dec 2004 £m	31 Dec 2003 £m	**31 Dec 2004 £m**	31 Dec 2003 £m
Borrowings (see note 28)	**1,156**	988	**–**	420
Other creditors and deferred income	**96**	97	**–**	–
	1,252	1,085	**–**	420

26 DEFERRED TAXATION

	Group £m
At 31 December 2003	314
Exchange and other adjustments	1
Disposals	(3)
Profit and loss account	(64)
At 31 December 2004	**248**

Analysed as tax on timing differences related to:	Group 31 Dec 2004 £m	Group 31 Dec 2003 £m
Fixed assets	**252**	252
Deferred gains on loan notes	**122**	123
Losses	**(113)**	(37)
Pension prepayment	**23**	14
Other	**(36)**	(38)
	248	314

Notes to the financial statements

26 DEFERRED TAXATION (CONTINUED)

The deferred tax asset of £113m (2003 £37m) recognised in respect of losses includes £89m (2003 £6m) of capital losses available to be utilised against the realisation of capital gains which are recognised as a deferred tax liability and £24m (2003 £31m) in respect of revenue tax losses. Tax losses with a value of £305m (2003 £317m), including capital losses with a value of £98m (2003 £112m), have not been recognised as their use is uncertain or not currently anticipated.

No provision has been made for deferred tax on the sale of properties at their revalued amounts. The total amount unprovided is estimated at £177m (2003 £215m).

No provision has been made for deferred tax on the sale of properties where gains have been, or are expected to be, deferred against expenditure on replacement assets for an indefinite period until the sale of the replacement assets. The total amount unprovided is estimated at £58m (2003 £52m), of which £14m is expected to be rolled over into capital expenditure in periods up to 31 December 2004. It is not anticipated that any such tax will be payable in the foreseeable future.

27 OTHER PROVISIONS FOR LIABILITIES AND CHARGES

	Disposals[a] £m	Hotels reorganisation[b] £m	Onerous contracts[c] £m	Pensions[d] £m	Other £m	Total Group £m
At 31 December 2003	–	27	5	46	1	79
Exchange and other adjustments	–	(2)	–	(3)	–	(5)
Profit and loss account	74	–	(1)	8	(1)	80
Expenditure	–	(17)	(1)	(2)	–	(20)
At 31 December 2004	**74**	**8**	**3**	**49**	**–**	**134**

a Relates to the disposal of 13 hotels in the Americas and 73 hotels in the United Kingdom.

b Relates to the Hotels reorganisation charged as a non-operating exceptional item in 2003 and is expected to be largely utilised in the year to 31 December 2005.

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

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

28 BORROWINGS

	Group				Company	
	31 Dec 2004			31 Dec 2003	31 Dec 2004	31 Dec 2003
	Within one year £m	After one year £m	Total £m	Total £m	Within one year £m	Total £m
Bank loans and overdrafts						
Secured:						
Bank loans*	**2**	**49**	**51**	60	**–**	–
Unsecured:						
Bank loans	**12**	**1,104**	**1,116**	494	**–**	–
Overdrafts	**11**	**–**	**11**	5	**10**	–
Total bank loans and overdrafts	**25**	**1,153**	**1,178**	559	**10**	–
Other borrowings						
Secured:						
Other loan stock†	**–**	**–**	**–**	1	**–**	–
Unsecured:						
2007 Guaranteed Notes 5.75% (£250m)	**–**	**–**	**–**	18	**–**	–
2010 Guaranteed Notes 4.75% (€600m)	**18**	**–**	**18**	420	**18**	420
Other loan stock	**–**	**3**	**3**	3	**–**	–
Total other borrowings	**18**	**3**	**21**	442	**18**	420
Total borrowings	**43**	**1,156**	**1,199**	1,001	**28**	420

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

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

28 BORROWINGS (CONTINUED)

	Group				Company	
	31 Dec 2004			31 Dec 2003	31 Dec 2004	31 Dec 2003
	Bank loans and overdrafts £m	Other borrowings £m	Total £m	Total £m	Total £m	Total £m
Analysis by year of repayment						
Due within one year (see note 24)	**25**	**18**	**43**	13	**28**	–
Due: between one and two years	**2**	**–**	**2**	42	**–**	–
between two and five years	**1,150**	**–**	**1,150**	514	**–**	–
after five years	**1**	**3**	**4**	432	**–**	420
Due after more than one year (see note 25)	**1,153**	**3**	**1,156**	988	**–**	420
	1,178	**21**	**1,199**	1,001	**28**	420
Amounts repayable by instalments, some of which fall due after five years	**19**	**–**	**19**	22	–	–

Facilities committed by banks	31 Dec 2004 £m	31 Dec 2003 £m
Utilised	**1,155**	554
Unutilised	**542**	408
	1,697	962
Unutilised facilities expire:		
within one year	**40**	–
after one year but before two years	**500**	36
after two years	**2**	372
	542	408

29 FINANCIAL INSTRUMENTS

Details of the Group's policies on the use of financial instruments are given in the operating and financial review on pages 11 to 12 and in the accounting policies on page 42. The following disclosures provide additional information regarding the effect of these instruments on the financial assets and liabilities of the Group, other than short-term debtors and creditors.

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

31 December 2004	Net debt £m	Currency swap agreements £m	Total £m	Principal: At variable rate* £m	Principal: At fixed rate £m	Interest at fixed rate: Weighted average rate %	Interest at fixed rate: Weighted average period for which rate is fixed (years)
Current asset investments and cash at bank and in hand:							
Sterling	**26**	**339**	**365**	**365**	**–**	**–**	**–**
US dollar	**29**	**–**	**29**	**29**	**–**	**–**	**–**
Other	**28**	**–**	**28**	**28**	**–**	**–**	**–**
Borrowings:							
Sterling	**(247)**	**–**	**(247)**	**(244)**	**(3)**	**–**	**5.0**
US dollar	**(283)**	**(52)**	**(335)**	**(231)**	**(104)**	**4.6**	**1.7**
Euro	**(560)**	**(239)**	**(799)**	**(596)**	**(203)**	**3.6**	**1.0**
Hong Kong dollar	**(69)**	**–**	**(69)**	**(49)**	**(20)**	**1.5**	**0.8**
Other	**(40)**	**(48)**	**(88)**	**(64)**	**(24)**	**5.4**	**0.7**
	(1,116)	**–**	**(1,116)**	**(762)**	**(354)**	**3.9**	**1.2**

* Primarily based on the relevant inter-bank rate.

Notes to the financial statements

29 FINANCIAL INSTRUMENTS (CONTINUED)

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

* Primarily based on the relevant inter-bank rate.

At 31 December 2004, the Group had investments totalling £175m (2003 £172m) on which no interest is receivable and which do not have a maturity date. These interests are denominated primarily in US dollars.

The Group had other creditors and deferred income, denominated primarily in US dollars, due after one year of £96m at 31 December 2004 (2003 £97m) on which no interest is payable.

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

At 31 December 2004, the Group had contracted to exchange within one year the equivalent of £204m (2003 £49m) of various currencies.

Liquidity risk A liquidity analysis of the Group's borrowings is provided in note 28, along with details of the Group's material unutilised committed borrowing facilities. The liquidity analysis of the Group's other financial liabilities is set out below:

Other financial liabilities		**31 Dec 2004 £m**	31 Dec 2003 restated* £m
Due:	between one and two years	**26**	36
	between two and five years	**33**	40
	after five years	**89**	72
		148	148

* Restated to include certain provisions for liabilities and charges on a basis consistent with 2004.

29 FINANCIAL INSTRUMENTS (CONTINUED)

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

	31 Dec 2004		31 Dec 2003 restated*	
	Net book value £m	**Fair value £m**	Net book value £m	Fair value £m
Fixed asset investments	**99**	**102**	172	174
Current asset equity investments	**76**	**76**	–	–
Net debt:				
Cash and overdrafts	**32**	**32**	50	50
Current asset investments	**40**	**40**	361	361
Currency swap agreements	**(9)**	**(9)**	16	20
Other borrowings	**(1,179)**	**(1,179)**	(996)	(1,000)
Net debt	**(1,116)**	**(1,116)**	(569)	(569)
Other financial liabilities	**(148)**	**(148)**	(148)	(148)
Interest rate swap agreements	**–**	**(3)**	–	(29)
Forward exchange contracts	**–**	**9**	–	(1)
	(1,089)	**(1,080)**	(545)	(573)

* Restated to include certain provisions for liabilities and charges on a basis consistent with 2004.

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

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

	Gains £m	Losses £m	Total £m
Unrecognised at 30 September 2002	24	(45)	(21)
Recognised in the period	(2)	31	29
Arising in the period but not recognised	(18)	(16)	(34)
Unrecognised at 31 December 2003	**4**	**(30)**	**(26)**
Recognised in the year	(1)	21	20
Arising in the year but not recognised	6	6	12
Unrecognised at 31 December 2004	**9**	**(3)**	**6**
Expected to be recognised in the year ending 31 December 2005	9	(1)	8
Expected to be recognised thereafter	–	(2)	(2)

30 SHARE CAPITAL

	note	Number of shares millions	£m
Authorised (ordinary shares and redeemable preference share)			
At 31 December 2003	a	10,000	10,000
Share capital consolidation	b	(1,071)	–
At 31 December 2004	c	**8,929**	**10,000**
Allotted, called up and fully paid (ordinary shares)			
At 31 December 2003 (shares of £1 each)		739	739
Share capital consolidation	b	(75)	–
Issued under option schemes		4	4
Repurchased and cancelled under repurchase programmes	d	(46)	(46)
At 31 December 2004 (shares of 112 pence each)		**622**	**697**

a At 31 December 2003, the authorised share capital was £10,000,050,000, comprising 10,000,000,000 ordinary shares of £1 each and one redeemable preference share of £50,000.

b On 10 December 2004, shareholders approved a share capital consolidation on the basis of 25 new ordinary shares for every 28 existing ordinary shares. This provided for all the authorised ordinary shares of £1 each (whether issued or unissued) to be consolidated into new ordinary shares of 112 pence each. The share capital consolidation became effective on 13 December 2004. The consolidation had no impact on the authorised redeemable preference share.

c At 31 December 2004, the authorised share capital was £10,000,049,999, comprising 8,928,571,428 ordinary shares of 112 pence each and one redeemable preference share of £50,000.

d During 2004, the Company undertook to return funds of up to £500m to shareholders by way of two consecutive £250m share repurchase programmes, the second of which commenced in December 2004. During the year, 46,385,981 ordinary shares were repurchased and cancelled under the authorities granted by shareholders at general meetings held during 2003 and 2004.

Notes to the financial statements

30 SHARE CAPITAL (CONTINUED)

The aggregate consideration in respect of ordinary shares issued in respect of option schemes during the year was £16m (2003 £18m).

Options to subscribe for ordinary shares	millions
At 31 December 2003	28.6
Granted	6.9
Exercised	(7.4)
Foregone	(0.1)
At 31 December 2004	28.0
Option exercise price per ordinary share (pence)	308.48 – 593.29
Final exercise date	1 April 2014

The authority given to the Company at the Extraordinary General Meeting on 10 December 2004 to purchase its own shares was still valid at 31 December 2004. A resolution to renew the authority will be put to shareholders at the Annual General Meeting on 1 June 2005.

31 RESERVES – EQUITY INTERESTS

	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Merger reserve £m	Other reserve £m	Profit and loss account £m	Total £m
Group							
At 31 December 2003	14	258	–	1,164	(11)	390	1,815
Premium on allotment of ordinary shares	12	–	–	–	–	–	12
Repurchase of shares	–	–	–	–	–	(211)	(211)
Transfer to capital redemption reserve	–	–	46	–	–	(46)	–
Purchase of own shares by employee share trusts	–	–	–	–	(33)	–	(33)
Release of own shares by employee share trusts	–	–	–	–	22	(6)	16
Credit in respect of employee share schemes	–	–	–	–	–	15	15
Retained loss for the period	–	–	–	–	–	(293)	(293)
Goodwill (see note 32)	–	–	–	–	–	110	110
Revaluation surplus realised on disposals	–	(3)	–	–	–	3	–
Reversal of previous revaluation gains due to impairment	–	(20)	–	–	–	–	(20)
Exchange adjustments on: assets	–	(2)	–	–	–	(73)	(75)
borrowings and currency swaps	–	–	–	–	–	54	54
goodwill eliminated (see note 32)	–	–	–	–	–	(110)	(110)
At 31 December 2004	**26**	**233**	**46**	**1,164**	**(22)**	**(167)**	**1,280**

	Share premium account £m	Capital redemption reserve £m	Other reserve £m	Profit and loss account £m	Total £m
Company					
At 31 December 2003	14	–	(11)	294	297
Premium on allotment of ordinary shares	12	–	–	–	12
Repurchase of shares	–	–	–	(211)	(211)
Transfer to capital redemption reserve	–	46	–	(46)	–
Purchase of own shares by employee share trusts	–	–	(33)	–	(33)
Release of own shares by employee share trusts	–	–	22	(6)	16
Retained earnings for the period	–	–	–	225	225
At 31 December 2004	**26**	**46**	**(22)**	**256**	**306**

The Company has distributable reserves of £234m.

The other reserve comprises £21.8m in respect of 3.1m (2003 2.2m) InterContinental Hotels Group PLC ordinary shares held by employee share trusts, with a market value at 31 December 2004 of £20m (2003 £12m).

32 GOODWILL ELIMINATED*

	Group		
	Cost of goodwill eliminated £m	Exchange adjustments £m	Total £m
Eliminated to 31 December 2003	2,353	(17)	2,336
Exchange adjustments	–	(110)	(110)
Eliminated to 31 December 2004	**2,353**	**(127)**	**2,226**

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

33 PARENT COMPANY

Profit on ordinary activities after taxation dealt with in the financial statements of the Company amounts to £817m (2003 £399m).

34 FINANCIAL COMMITMENTS

The Group has annual commitments under operating leases at 31 December 2004 which expire as follows:

	Properties		Other	
	31 Dec 2004 £m	31 Dec 2003 £m	**31 Dec 2004 £m**	31 Dec 2003 £m
Within one year	**1**	1	**2**	2
Between one and five years	**11**	10	**5**	5
After five years	**35**	32	**1**	–
	47	43	**8**	7

35 CONTRACTS FOR EXPENDITURE ON FIXED ASSETS

	Group	
	31 Dec 2004 £m	31 Dec 2003 £m
Contracts placed for expenditure on fixed assets not provided for in the financial statements	**53**	63

36 CONTINGENCIES

Contingent liabilities not provided for in the financial statements relate to:

	Group		Company	
	31 Dec 2004 £m	31 Dec 2003 £m	**31 Dec 2004 £m**	31 Dec 2003 £m
Guarantees:				
Liabilities of subsidiaries	**–**	–	**1,099**	450
Other	**9**	11	**–**	–
	9	11	**1,099**	450

In limited cases, the Group may provide performance guarantees to third-party owners to secure management contracts. The maximum exposure under such guarantees is £115m. It is the view of the directors that, other than to the extent that liabilities have been provided for in these financial statements, such guarantees are not expected to result in financial loss to the Group.

The Group has given warranties in respect of the disposal of certain of its former subsidiaries. It is the view of the directors that, other than to the extent that liabilities have been provided for in these financial statements, such warranties are not expected to result in financial loss to the Group.

Notes to the financial statements

37 PRINCIPAL OPERATING SUBSIDIARY UNDERTAKINGS

InterContinental Hotels Group PLC is the beneficial owner of all (unless specified) of the equity share capital, either itself or through subsidiary undertakings, of the following companies:

Corporate activities
Six Continents PLC (note a)

Hotels
InterContinental Hotels Limited

InterContinental Hotels Group Operating Corporation (incorporated and operates principally in the United States)

InterContinental Hotels Group Services Company

InterContinental Hotels Group (UK) Limited

Holiday Inn Limited

Soft Drinks
Britannia Soft Drinks Limited (47.5% Six Continents Investments Limited, 23.75% Whitbread PLC, 23.75% Allied Domecq PLC, 5% PepsiCo Holdings Limited) (note b)

Britvic Soft Drinks Limited (100% Britannia Soft Drinks Limited)

Robinsons Soft Drinks Limited (100% Britannia Soft Drinks Limited)

note a Shares held directly by InterContinental Hotels Group PLC.

note b The Group exercises dominant influence over Britannia Soft Drinks Limited which is, accordingly, treated as a subsidiary undertaking.

note c Unless stated otherwise, companies are incorporated in Great Britain, registered in England and Wales and operate principally within the United Kingdom.

note d The companies listed above include all those which principally affect the amount of profit and assets of the Group.

38 POST BALANCE SHEET EVENTS

On 28 February 2005, IHG announced the acquisition by Strategic Hotel Capital, Inc. of 85% interests in two hotels in the United States. IHG will receive approximately $287m in cash before transaction costs, based upon a total value for both hotels of $303.5m, $12m in excess of net book value. This transaction is expected to complete in the first half of 2005. IHG will continue to manage these hotels under a 20 year management contract with three options to extend for a further ten years each.

On 10 March 2005, IHG announced the sale of 73 hotels in the United Kingdom. Proceeds totalled £1.0bn before transaction costs, £22m below net book value. This transaction is expected to complete in the second quarter of 2005. IHG will continue to manage 63 of these hotels under a 20 year management contract with two consecutive options to extend the contract for a further five years each. The remaining ten hotels will be under a temporary management agreement with IHG.

US GAAP information

DIFFERENCES BETWEEN UNITED KINGDOM AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

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

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

CLASSIFICATION OF BORROWINGS

Under US GAAP the amounts shown as repayable after one year for unsecured bank loans and overdrafts drawn under or supported by bank facilities with maturities of up to five years and amounting to £1,104m (2003 £489m) would be classified as current liabilities.

PENSION COSTS

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

At 31 December 2004, the accumulated benefit obligations exceeded the fair value of the plans' assets. In these circumstances, US GAAP would require the recognition of the difference as a balance sheet liability and the elimination of any amounts previously recognised as a prepaid pension cost. An equal amount, but not exceeding the amount of unrecognised past service cost, would be recognised as an intangible asset with the balance reported in other comprehensive income.

INTANGIBLE ASSETS

Under UK GAAP, prior to 1 October 1998, goodwill arising on acquisitions was eliminated against reserves. Since 1 October 1998, acquired goodwill has been capitalised and amortised over a period not exceeding 20 years. On disposal of a business, the profit or loss on disposal is determined after incorporating the attributable amount of any purchased goodwill, including any previously written off to reserves. Under US GAAP, goodwill arising on acquisitions prior to 1 July 2001 would be capitalised and amortised over its estimated useful life, not exceeding 40 years.

For the purposes of US GAAP the Group adopted statement of Financial Accounting Standards (FAS) 142 'Goodwill and Other Intangible Assets' on 1 October 2002 and from that date goodwill and indefinite life intangible assets, including that which arose in the period from 1 July 2001, would not be amortised but would be reviewed annually for impairment.

Under US GAAP, separately identified definite life intangible assets arising on acquisitions would be capitalised and amortised over their useful lives. Under UK GAAP, these assets are included within goodwill.

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

IMPAIRMENT OF GOODWILL

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

TANGIBLE FIXED ASSETS

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

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

US GAAP information

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

The Group recognises a profit on disposal of fixed assets provided substantially all the risks and rewards of ownership have transferred. For the purposes of US GAAP, the Group would account for sales of real estate in accordance with FAS 66 'Accounting for Sales of Real Estate'. If there is significant continuing involvement with the property, any gain on sale is deferred and is recognised over the life of the long-term management contract retained on the property.

STAFF COSTS

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

The Group provides certain compensation arrangements in the United States through a rabbi trust. Under UK GAAP, the net deficit is recorded as a provision in the accounts and the net change in the underlying value of the assets and liabilities is recorded as a charge (or credit) to the profit and loss account. Under US GAAP, the marketable securities held by the rabbi trust would be accounted for in accordance with FAS 115 'Accounting for certain investments in Debt and Equity Securities'. The trust is shown gross in the balance sheet. The marketable securities held by the trust are recorded at market value and unrealised gains and losses are reported in other comprehensive income except for other than temporary which are recognised in the profit and loss account.

SEVERANCE AND RESTRUCTURING COSTS

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

DEFERRED TAXATION

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

FIXED ASSET INVESTMENTS

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

DERIVATIVE INSTRUMENTS AND HEDGING

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

GUARANTEES

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

PROPOSED DIVIDENDS

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

EXCEPTIONAL ITEMS

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

Exceptional items for the 15 and 12 months ended 31 December 2003 include restructuring charges associated with the fundamental reorganisation within the Hotels business which is an expressly permitted exceptional item in accordance with FRS3.

ASSETS HELD FOR SALE

Under UK GAAP there is no held for sale definition. Under US GAAP, assets are classified as held for sale when the criteria under FAS 144 'Accounting for the impairment or disposal of long-lived assets' are met. Assets classified as held for sale are recorded at the lower of carrying value or estimated fair value, less estimated costs to sell. Depreciation is no longer charged.

DISCONTINUED OPERATIONS

Under UK GAAP, operations are classified as discontinued when the sale or termination of operations is completed by the balance sheet date, or before approval of the financial statements. In addition, the operations concerned must have a material effect on the nature and focus of operations resulting in either a withdrawal from a particular class of business or geographic market or a material reduction in turnover in a continuing market. Under US GAAP, operations are classified as discontinued when they are classified as held for sale and when the Group no longer believes it will have a significant continuing involvement.

US GAAP information

NET INCOME/(LOSS) IN ACCORDANCE WITH US GAAP

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

	12 months to 31 Dec 2004 £m	3 months to 31 Dec 2002 £m	12 months to 31 Dec 2003 £m	15 months to 31 Dec 2003 £m	**12 months to 31 Dec 2004[a] $m**	3 months to 31 Dec 2002[a] $m	12 months to 31 Dec 2003[a] $m	15 months to 31 Dec 2003[a] $m
Earnings available for shareholders in accordance with UK GAAP	**299**	64	(45)	19	**546**	105	(74)	31
Adjustments:								
Pension costs	**(15)**	(9)	(14)	(23)	**(27)**	(15)	(23)	(38)
Amortisation of intangible fixed assets	**7**	(4)	(5)	(9)	**12**	(7)	(8)	(15)
Impairment of intangible fixed assets on adoption of FAS 142	**–**	(712)	–	(712)	**–**	(1,154)	–	(1,154)
Depreciation of tangible fixed assets	**(4)**	–	(4)	(4)	**(8)**	–	(7)	(7)
Disposal of tangible fixed assets	**79**	3	5	8	**144**	5	8	13
Impairment of tangible fixed assets	**10**	–	45	45	**18**	–	73	73
Provisions	**(5)**	(1)	3	2	**(9)**	(2)	5	3
Gain on held for sale equity investment	**(28)**	–	–	–	**(51)**	–	–	–
Staff costs	**(2)**	–	(6)	(6)	**(4)**	–	(10)	(10)
Deferred revenue	**5**	–	3	3	**10**	–	5	5
Change in fair value of derivatives[b]	**52**	7	26	33	**95**	12	43	55
Deferred taxation:								
on above adjustments	**(7)**	2	4	6	**(14)**	3	7	10
methodology	**(63)**	(2)	14	12	**(114)**	(3)	23	20
	29	(716)	71	(645)	**52**	(1,161)	116	(1,045)
Minority share of above adjustments	**4**	–	3	3	**7**	–	5	5
	33	(716)	74	(642)	**59**	(1,161)	121	(1,040)
Net income/(loss) in accordance with US GAAP	**332**	(652)	29	(623)	**605**	(1,056)	47	(1,009)
Income/(loss) before cumulative effect on prior years of change in accounting principle:								
Continuing operations	**330**	28	(6)	22	**602**	46	(9)	37
Discontinued operations	**2**	32	35	67	**3**	52	56	108
Cumulative effect on prior years of adoption of FAS 142	**–**	(712)	–	(712)	**–**	(1,154)	–	(1,154)
	332	(652)	29	(623)	**605**	(1,056)	47	(1,009)
Basic[c] net income/(loss) per American Depositary Share	**£**	£	£	£	**$**	$	$	$
Income/(loss) before cumulative effect on prior years of change in accounting principle:								
Continuing operations	**0.47**	0.04	(0.01)	0.03	**0.85**	0.07	(0.01)	0.05
Discontinued operations	**–**	0.04	0.05	0.09	**–**	0.07	0.07	0.15
Cumulative effect on prior years of adoption of FAS 142	**–**	(0.97)	–	(0.97)	**–**	(1.58)	–	(1.58)
	0.47	(0.89)	0.04	(0.85)	**0.85**	(1.44)	0.06	(1.38)
Diluted[d] net income/(loss) per American Depositary Share	**£**	£	£	£	**$**	$	$	$
Income/(loss) before cumulative effect on prior years of change in accounting principle:								
Continuing operations	**0.44**	0.04	(0.01)	0.03	**0.81**	0.07	(0.01)	0.05
Discontinued operations	**–**	0.04	0.05	0.09	**–**	0.07	0.07	0.15
Cumulative effect on prior years of adoption of FAS 142	**–**	(0.97)	–	(0.97)	**–**	(1.58)	–	(1.58)
	0.44	(0.89)	0.04	(0.85)	**0.81**	(1.44)	0.06	(1.38)

a Translated at the weighted average rate of exchange for the period of £1 = $1.82 (2003 £1 = $1.62).

b Comprises net gains in the fair value of derivatives that do not qualify for hedge accounting of £50m (2003 £28m) and net gains reclassified to other comprehensive income of £2m (2003 £5m).

c Calculated by dividing net income/(loss) in accordance with US GAAP of £332m profit (2003 £623m loss) by 710m (2003 733m) shares, being the weighted average number of ordinary shares in issue during the period. Each American Depositary Share represents one ordinary share.

d Calculated by adjusting basic net income/(loss) in accordance with US GAAP of £321m profit to reflect both the future compensation on share-based payments and the notional exercise of the weighted average number of dilutive ordinary share options outstanding during the period. The resulting weighted average number of ordinary shares is 720m (2003 733m).

SHAREHOLDERS' EQUITY IN ACCORDANCE WITH US GAAP

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

	31 Dec 2004 £m	31 Dec 2003 £m	**31 Dec 2004[a] $m**	31 Dec 2003[a] $m
Shareholders' funds in accordance with UK GAAP	**1,977**	2,554	**3,813**	4,546
Adjustments:				
Intangible fixed assets:				
Cost: goodwill	**781**	837	**1,508**	1,490
other	**689**	843	**1,329**	1,500
Accumulated amortisation	**(245)**	(257)	**(474)**	(457)
	1,225	1,423	**2,363**	2,533
Intangible asset – minimum pension liability	**3**	6	**6**	11
	1,228	1,429	**2,369**	2,544
Tangible fixed assets:				
Cost	**(82)**	(68)	**(158)**	(121)
Assets held for sale	**(300)**	–	**(579)**	–
Accumulated depreciation	**60**	33	**116**	59
	(322)	(35)	**(621)**	(62)
Fixed asset investments:				
Investments and advances	**3**	2	**6**	4
Assets held for sale	**300**	–	**579**	–
Current assets:				
Pension prepayment	**(52)**	(47)	**(101)**	(84)
Other debtors	**22**	22	**44**	39
Derivatives	**9**	4	**18**	7
Creditors: amounts falling due within one year:				
Other creditors	**5**	(2)	**10**	(4)
Proposed dividend of parent company	**62**	70	**120**	125
Proposed dividend for minority shareholders	**19**	16	**36**	28
Derivatives	**(1)**	(6)	**(2)**	(11)
Creditors: amounts falling due after one year:				
Other creditors	**(99)**	(114)	**(192)**	(203)
Derivatives	**(2)**	(24)	**(4)**	(43)
Provisions for liabilities and charges:				
Provisions	**98**	25	**190**	45
Accrued pension cost	**(64)**	(54)	**(124)**	(96)
Deferred taxation: on above adjustments	**(187)**	(238)	**(361)**	(423)
methodology	**(155)**	(169)	**(299)**	(301)
	864	879	**1,668**	1,565
Minority share of above adjustments	**(45)**	(53)	**(86)**	(95)
	819	826	**1,582**	1,470
Shareholders' equity in accordance with US GAAP	**2,796**	3,380	**5,395**	6,016

a Translated at the rate of exchange ruling at the balance sheet date of £1 = $1.93 (2003 £1 = $1.78).

Directors' responsibilities in relation to financial statements

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

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

Following discussions with the auditors, the directors consider that in preparing the financial statements on pages 38 to 66 inclusive, the Company has used appropriate accounting policies, applied in a consistent manner and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

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

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

Report of the independent auditors

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

We have audited the Group's financial statements for the year ended 31 December 2004 which comprise the Group profit and loss account, statement of total recognised Group gains and losses, note of historical cost Group profits and losses, reconciliation of movement in shareholders' funds, Group cash flow statement, balance sheets, accounting policies and the related notes 1 to 38. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

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

We review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules of the Financial Services Authority and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Financial Highlights, Operating and Financial Review, International Financial Reporting Information, Directors' Report, Corporate Governance statement, Audit Committee Report, unaudited part of the Remuneration Report, US GAAP Information and Four Year Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit of the Group for the year then ended; and the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP,
Registered Auditor, London.
9 March 2005

Four year review

InterContinental Hotels Group PLC Group Profit and Loss Account	**Dec 2004 12 months £m**	Pro forma* Dec 2003 12 months £m	Pro forma* Dec 2002 12 months £m	Sept 2002† 12 months £m	Sept 2001† 12 months £m
Hotels	**1,498**	1,487	1,538	1,532	1,902
Soft Drinks	**706**	674	611	602	571
Turnover	**2,204**	2,161	2,149	2,134	2,473
Hotels	**251**	200	239	266	429
Soft Drinks	**80**	83	68	63	57
Continuing operations before exceptional items	**331**	283	307	329	486
Operating exceptional items	**(19)**	–	–	(77)	(43)
Operating profit	**312**	283	307	252	443
Non-operating exceptional items:					
Continuing operations	**(69)**	–	–	(2)	(2)
Discontinued operations‡	**–**	–	–	57	38
Profit before interest	**243**	283	307	307	479
Interest	**(33)**	(39)	(49)	(17)	(1)
Profit before tax	**210**	244	258	290	478
Tax	**117**	(61)	(71)	28	(141)
Profit after tax	**327**	183	187	318	337
Minority interests	**(28)**	(30)	(26)	(25)	(24)
Earnings	**299**	153	161	293	313
Earnings per share:					
Pro forma	**–**	20.8p	21.9p	–	–
Basic	**42.1p**	–	–	40.1p	42.8p
Adjusted§	**32.5p**	–	–	43.1p	43.8p

InterContinental Hotels Group PLC Group Cash Flow Statement	**Dec 2004 12 months £m**	Pro forma* Dec 2003 12 months £m	Dec 2003 15 months £m	Sept 2002† 12 months £m	Sept 2001† 12 months £m
EBITDA#	**529**	481	595	510	644
Working capital movements	**3**	30	24	(144)	19
Cost of fundamental reorganisation	**(17)**	–	(37)	–	–
Operating exceptional expenditure	**–**	–	–	(17)	(23)
Operating activities	**515**	511	582	349	640
Net capital expenditure (see below)	**(151)**	(100)	(187)	(287)	(580)
Operating cash flow (see below)	**364**	411	395	62	60
Net capital expenditure					
Hotels	**(81)**	(45)	(122)	(256)	(552)
Soft Drinks	**(70)**	(55)	(65)	(31)	(28)
	(151)	(100)	(187)	(287)	(580)
Operating cash flow					
Hotels	**291**	340	336	(15)	(82)
Soft Drinks	**73**	71	59	77	99
Continuing operations	**364**	411	395	62	17
Discontinued operations‡	**–**	–	–	–	43
	364	411	395	62	60

* See page 12.

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

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

‡ Relates to Bass Brewers.

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

InterContinental Hotels Group PLC Group Balance Sheet	31 Dec 2004 £m	31 Dec 2003 £m	Pro forma* 31 Dec 2002 £m	30 Sept 2002† £m	30 Sept 2001† £m
Fixed assets	**4,017**	4,281	4,510	4,495	4,575
Stocks	**42**	44	43	42	46
Debtors	**556**	523	456	545	484
Investments	**116**	377	193	216	364
Cash at bank and in hand	**43**	55	135	68	49
Amounts due from MAB	**–**	–	–	831	825
Short-term creditors	**(1,013)**	(1,085)	(1,025)	(2,054)	(1,759)
Net current (liabilities)/assets	**(256)**	(86)	(198)	(352)	9
Long-term creditors	**(1,252)**	(1,085)	(1,423)	(763)	(1,179)
Provisions	**(382)**	(393)	(336)	(334)	(419)
Minority interests	**(150)**	(163)	(139)	(149)	(133)
Net assets	**1,977**	2,554	2,414	2,897	2,853
Equity shareholders' funds	**1,977**	2,554	2,414	2,897	2,853
Comprising:					
Hotels	**3,513**	3,738	4,060	4,084	3,918
Soft Drinks	**306**	300	268	246	252
Net operating assets	**3,819**	4,038	4,328	4,330	4,170
Net debt	**(1,116)**	(569)	(1,000)	(1,191)	(1,016)
Other#	**(726)**	(915)	(914)	(242)	(301)
Equity shareholders' funds	**1,977**	2,554	2,414	2,897	2,853
Statistics					
Gearing‡	**56.4%**	22.3%	41.4%	41.1%	35.6%
Return on net operating assets§	**8.7%**	7.0%	7.1%	7.6%	11.7%

* See page 12.

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

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

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

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

Glossary

ADJUSTED excluding the effect of exceptional items and any relevant tax.

AVERAGE DAILY RATE (ADR) room revenue divided by the number of room nights sold. Also known as average room rate.

BASIC EARNINGS PER SHARE earnings available for ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year.

BOND a long-dated note, being an obligation to repay.

COMMERCIAL PAPER a negotiable short-term unsecured promissory note, issued by a corporate or other borrower normally for a maximum of one year.

COMPARABLE REVPAR a comparison for a grouping of hotels that have traded in all months in both financial years being compared. Principally excludes new hotels, hotels closed for major refurbishment and hotels sold in either of the two years.

CONTINGENT LIABILITY a liability that is contingent upon the occurrence of one or more uncertain future events.

CONTINUING OPERATIONS operations not classified as discontinued and including acquisitions made during the year.

CURRENCY SWAP an exchange of a deposit and a borrowing, each denominated in a different currency, for an agreed period of time.

DISCONTINUED OPERATIONS operations that have been sold or terminated and where the sale or termination has had a material effect on the nature and focus of the Group's operations.

EBITDA earnings before interest, taxation, depreciation and amortisation and exceptional items.

EXCEPTIONAL ITEMS material items deriving from ordinary activities but which are disclosed separately because of their size or incidence.

EXTENDED-STAY HOTEL a hotel designed for guests staying for periods of time longer than a few nights and tending to have a higher proportion of suites than normal hotels, e.g. Staybridge Suites.

FRANCHISEE operator who uses a brand under licence from the brand owner (e.g. InterContinental Hotels).

FRANCHISOR brand owner (e.g. InterContinental Hotels) who licenses brands for use by other operators.

GEARING net debt expressed as a percentage of shareholders' funds.

GOODWILL the difference between the consideration given for a business and the total of the values of the separable assets and liabilities comprising that business.

HEDGING the reduction of risk, normally in relation to foreign currency or interest rate movements, by making offsetting commitments.

HOLIDEX FEES charges to hotels under management and franchise agreements for the use of Holidex, IHG's proprietory reservation system.

INCOME-GENERATING UNIT a portfolio of similar assets that are subject to the same economic and commercial influences.

INTEREST RATE SWAP an agreement to exchange fixed for floating interest rate streams (or vice versa) on a notional principal.

MANAGEMENT CONTRACT a contract to operate a hotel on behalf of the hotel owner.

MARKET CAPITALISATION the value attributed to a listed company by multiplying its share price by the number of shares in issue.

MIDSCALE HOTEL a hotel in the three/four star category, e.g. Holiday Inn, Holiday Inn Express.

NET CAPITAL EXPENDITURE cash expended on fixed assets, less cash received from selling fixed assets, excluding significant acquisitions and disposals.

NET CASH FLOW cash flow from all operations, including exceptional and one-off payments and receipts.

NET DEBT borrowings less current asset investments and cash at bank and in hand.

NET OPERATING ASSETS total assets less liabilities, excluding all assets and liabilities of a financing nature.

OCCUPANCY RATE rooms occupied by hotel guests, expressed as a percentage of rooms that are available.

OPERATING CASH FLOW cash flow from operations but before payments for tax and to providers of finance (through interest and dividends), and before major and one-off payments and receipts.

OPERATING MARGIN operating profit expressed as a percentage of turnover.

PIPELINE signed/executed agreements, including franchises and management contracts, for hotels which will enter the InterContinental Hotels system at a future date.

REVENUE PER AVAILABLE ROOM (REVPAR) room revenue divided by the number of room nights that are available (can be mathematically derived from occupancy rate multiplied by average room rate).

ROOM REVENUE revenue generated from the sale of room nights.

ROYALTY RATE the percentage of room revenue that a franchisee pays to the brand owner for use of the brand name.

SUBSIDIARY UNDERTAKING a company in which the Group holds an equity stake and over which it exercises dominant influence.

SYSTEM SIZE number of hotels (or rooms) owned, managed or franchised by InterContinental Hotels.

UPSCALE HOTEL a four/five star full-service hotel characterised by superior service, e.g. InterContinental, Crowne Plaza.

UK GAAP accounting principles generally accepted in the United Kingdom.

US GAAP accounting principles generally accepted in the United States.

WEIGHTED AVERAGE EXCHANGE RATE the average of the monthly exchange rates, weighted by reference to monthly operating profit.

WORKING CAPITAL the sum of stocks, debtors, creditors and accruals of a trading nature, excluding financing items such as corporate taxation and proposed dividends.

Shareholder profile

as at 31 December 2004

Category of holdings	Number of shareholders	Percentage of total shareholders	Ordinary shares (million)	Percentage of issued share capital
Private individuals	78,190	92.72	42,715,539	6.87
Nominee companies	5,249	6.23	544,411,159	87.52
Limited and public limited companies	559	0.66	6,245,208	1.00
Other corporate bodies	306	0.36	12,468,041	2.00
Pension funds, insurance companies and banks	26	0.03	16,228,100	2.61
Total	**84,330**	**100**	**622,068,047**	**100**

Range of holdings	Number of shareholders	Percentage of total shareholders	Ordinary shares (million)	Percentage of issued share capital
1 – 199	40,767	48.34	2,991,366	0.48
200 – 499	18,236	21.63	5,974,740	0.96
500 – 999	12,069	14.31	8,572,548	1.38
1,000 – 4,999	11,160	13.23	21,471,612	3.45
5,000 – 9,999	845	1.00	5,778,173	0.93
10,000 – 49,999	605	0.72	13,459,629	2.16
50,000 – 99,999	171	0.20	12,188,953	1.96
100,000 – 499,999	301	0.36	68,691,310	11.04
500,000 – 999,999	69	0.08	48,332,634	7.77
1,000,000 – highest	107	0.13	434,607,082	69.87
Total	**84,330**	**100**	**622,068,047**	**100**

FORWARD-LOOKING STATEMENTS

Both the Annual Review and Summary Financial Statement 2004 and the Annual Report and Financial Statements 2004 contain certain forward-looking statements as defined under US legislation (Section 21E of the Securities Exchange Act of 1934) with respect to the financial condition, results of operations and business of InterContinental Hotels Group and certain plans and objectives of the board of directors of InterContinental Hotels Group with respect thereto. Such statements include, but are not limited to, statements made in the Chairman's Review and the Chief Executive's Statement. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', or other words of similar meaning. These statements are based on assumptions and assessments made by InterContinental Hotels Group's management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate.

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

Other factors that could affect the business and financial results are described in Item 3 Risk Factors as General Risks, Additional Risks relating to InterContinental Hotels and Additional Risks relating to the Soft Drinks business in the Annual Report of InterContinental Hotels Group PLC on Form 20-F for the financial period ended 31 December 2003, or in any Annual Report of InterContinental Hotels Group PLC on Form 20-F for any subsequent year, filed with the US Securities and Exchange Commission.

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