



INTERCONTINENTAL
HOTELS GROUP

ANNUAL REPORT AND FINANCIAL STATEMENTS 2005



financial highlights

Transformation to a managed and franchised business nearing completion. **InterContinental Hotels Group** now delivers more stable earnings and has a clear growth focus.

Continuing operating profit* **up 42%** from **£134m** to **£190m** with operating profit margin **up 4** percentage points.
Group operating profit **£317m**, **up £20m**.

Adjusted[†] earnings per share from continuing business **up 44%** from **17.3p** to **24.9p**. Group basic earnings per share **up 77%** from **53.9p** to **95.2p** driven by gain on disposal of operations.

Final dividend **up 7%** from **10.00p** to **10.70p** per share:
total 2005 dividend **up 7%** from **14.30p[§]** to **15.30p** per share.

9.0% RevPAR[#] growth across the Group's **3,600** hotels, mostly rate driven with strongest trading in the Americas.

70,000 rooms signed in 2005, **up 57%** over 2004. Our contract pipeline is the industry's largest at **108,500** rooms, **20%** of existing room count. Room count **up 3,300** to **537,500** rooms.

£500m special interim dividend to be paid during the second quarter of 2006.

* Excludes Britvic and hotel assets sold or held for sale at 31 December 2005; operating profit before other operating income and expenses.

† Excludes special items and gain on disposal of assets, net of related tax.

§ Excludes special interim dividend paid in December 2004.

Room revenue divided by the number of room nights available.

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operating and financial review

This operating and financial review (OFR) provides a commentary on the performance of InterContinental Hotels Group PLC (the Group or IHG) for the financial year ended 31 December 2005.

The financial statements for the year ended 31 December 2005 are the first annual financial statements that the Group has produced in line with International Financial Reporting Standards (IFRS). This OFR therefore compares financial year ended 31 December 2005 with financial year ended 31 December 2004 under IFRS.

BUSINESS OVERVIEW

Market and Competitive Environment

The Group operates in a global market, providing hotel rooms to guests. Total room capacity in hotels and similar establishments worldwide is estimated at 18.4 million rooms. This has been growing at approximately 3% per annum over the last five years. The hotel market is geographically concentrated with 12 countries accounting for two-thirds of worldwide hotel room supply. The Group has a leadership position (top three by room numbers) in six of these 12 countries – US, UK, Mexico, Canada, Greater China and Australia – more than any other major hotel company.

The hotel market is, however, a fragmented market with the four largest companies controlling only 11% of the global hotel room supply and the 10 largest controlling less than 20%. The Group is the largest of these companies (by room numbers) with a 3% market share. The major competitors in this market include other major global hotel companies, smaller hotel companies and independent hotels.

Within the global market, a relatively low proportion of hotel rooms are branded (see figure 1), but there has been an increasing trend towards branded rooms and market research company, Mintel, estimates that the proportion of branded rooms in Europe has grown from 15% in 2000 to 25% in 2004. Larger branded companies are therefore gaining market share at the expense of smaller companies and independent hotels. IHG is well positioned to benefit from this trend. Hotel owners are increasingly recognising the benefits of belonging to a branded portfolio, particularly a big brand family like IHG that can offer various brands to suit different opportunities an owner may have available. Furthermore, hotel ownership is increasingly being separated from hotel branding and this requires hotel owners to use third-parties like the Group to operate or brand their hotels.

FIGURE 1

Percentage of branded hotel rooms by region	2004
North America	65%
Europe	25%
South America	20%
Middle East	25%
East Asia	25%

Source: Mintel

US market data shows a steady increase in demand in the hotel market, broadly in line with Gross Domestic Product, and shows growth of approximately 1-1.5% per annum in real terms since 1967 driven by a number of underlying trends:

- demographics – as the population ages, increased leisure time drives more travel and hotel visits;
- disposable income rising as the global population becomes older and wealthier;
- travel volumes increasing as low cost airlines grow rapidly;
- globalisation of trade and tourism;
- the increasing affluence and freedom to travel of the Chinese middle class; and
- brand preference amongst consumers is increasing.

Suppressing this demand are potential negative trends including increased terrorism, environmental considerations and economic factors such as rising oil prices. Currently, however, there are no indications that demand is being significantly affected by these factors.

Supply growth in the industry is cyclical, averaging between zero and 5% per annum historically. The Group's profit is to a large extent insulated from supply pressure due to its model of third-party ownership of hotels under IHG management and franchise contracts.

operating and financial review

Strategy

The Group owns, operates and franchises hotels globally. The strategy is to become the preferred hotel company for guests and owners by building the strongest operating system in the industry, focused on the biggest markets and segments where scale really counts.

The Group has four stated strategic priorities:

- brand performance – to operate a portfolio of brands attractive to both owners and guests that have clear market positions in relation to competitors;
- excellent hotel returns – to generate higher owner returns through revenue delivery and improved operating efficiency;
- market scale and knowledge – to accelerate profitable growth in the largest markets where the Group currently has scale; and
- aligned organisation – to create a more efficient organisation with strong core capabilities.

Executing the four strategic priorities is designed to achieve:

- organic growth of 50,000 to 60,000 net rooms by the end of 2008;
- out-performance of Total Shareholder Return (TSR) against a competitor set; and
- improved Return on Capital Employed (ROCE).

Growth is expected to come predominantly from managing and franchising rather than owning hotels. The managed and franchised model is attractive because it enables the Group to achieve its goals with limited capital. With a relatively fixed cost base, such growth yields high incremental margins for IHG, and is primarily how the Group has grown to date. For this reason, the Group has executed a disposal programme of its owned hotels, releasing capital and enabling returns of funds to shareholders.

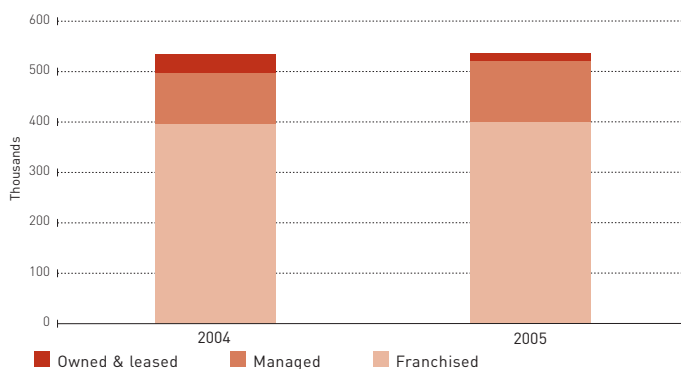
The main characteristic of the managed and franchised business model on which the Group has focused is that it generates surplus cash, with high ROCE. Currently, 88% of continuing earnings before interest, tax and regional and central overheads is derived from managed and franchised operations and over 3,500 hotels operating under Group brands are managed or franchised (see figure 2).

The Group aims to deliver its growth targets through the strongest operating system in the industry which includes:

- a strong brand portfolio across the major markets, including two iconic brands: InterContinental and Holiday Inn;
- market coverage – a presence in nearly 100 countries and territories;
- hotel distribution – 3,606 hotels, 537,533 rooms, 126 million guest stays per annum;
- IHG global reservation channels delivering over \$4.8bn of revenue in 2005, \$1.7bn from the internet. IHG reservation systems take over 22 million calls per annum;
- a loyalty programme, Priority Club Rewards, contributing \$3.8bn of system room revenue; and
- a strong web presence. holiday-inn.com is the industry's most visited site, with 75 million total site visits per annum.

With a clear target for rooms' growth and many brands with significant market premiums offering excellent returns for owners, the Group is well placed to execute its strategy and achieve its goals.

FIGURE 2
Global room count by ownership type



SIGNIFICANT DEVELOPMENTS

Britvic Initial Public Offering

In December 2005, IHG disposed of all of its interests in the Britvic Group (Britvic), by way of an initial public offering (IPO) of Britvic plc. IHG received approximately £371m in proceeds and additional dividends, before transaction costs. The disposal of Britvic leaves the Group focused solely on the hotel business. The results of Britvic up to 14 December 2005 are included in the Group results.

Hotel Disposals

During 2005, IHG made significant further progress in its asset disposal programme, including:

- the sale of 13 hotels in the US, Canada and Puerto Rico to Hospitality Properties Trust (HPT) for \$425m before transaction costs. Completion of the sale on 12 hotels was on 16 February 2005, with the sale of the InterContinental Hotel in Austin, Texas completing on 1 June 2005. IHG entered into a management contract with HPT on 12 of the hotels and operates the InterContinental San Juan on a lease agreement;
- the acquisition by Strategic Hotels Capital, Inc. (SHC) of an 85% interest in the InterContinental Miami and InterContinental Chicago, for \$287m in cash before transaction costs. The acquisition completed on 1 April 2005 and IHG entered into a management agreement with SHC on both of the hotels;
- the sale of 73 hotels in the UK to LRG Acquisition Limited (LRG), a consortium comprising Lehman Brothers Real Estate Partners, GIC Real Estate and Realstar Asset Management. The transaction completed on 24 May 2005, with IHG receiving an initial £960m in cash before transaction costs with a further £40m to be received subject to meeting performance targets over the next three years. IHG entered into a management agreement with LRG on 63 of the hotels and operates the other ten hotels under a temporary management agreement;
- the sale of nine hotels in Australia and New Zealand to Eureka Funds Management Ltd (Eureka) for A\$390m in cash before transaction costs, and the sale of the Holiday Inn, Suva, to a subsidiary of Fiji National Provident Fund (FNPF) for A\$15m in cash. Both transactions completed by 31 October 2005, with IHG entering into management agreements with Eureka and FNPF on these hotels;

- the sale of the InterContinental Hotel Paris for €315m. The transaction completed on 1 November 2005 and the hotel left the IHG system; and
- the sale of a further 13 hotels for proceeds of approximately £159m.

Since the end of 2005, the Group has made further announcements in relation to hotel disposals:

- on 25 January 2006, the sale to HPT of two hotels in the Americas for \$35m, marginally below net book value; and
- on 31 January 2006, the Group announced that it had placed a further 31 hotels in Europe on the market. The book value of these hotels is approximately £600m, and constitutes the final tranche of hotels that the Group had previously announced it would sell.

The asset disposal programme which commenced in 2003 has significantly reduced the capital intensity of the Group whilst largely retaining the hotels in the system via management and franchise agreement.

Since the separation of Six Continents PLC in April 2003 (Separation), the Group has sold or announced the sale of 144 hotels for aggregate proceeds of approximately £2.3bn (see figure 3). Of these 144 hotels, 126 have remained in the system under Group brands through either franchise or management agreements.

FelCor Relationship

On 25 January 2006, the Group announced a restructured management agreement with FelCor Lodging Trust Inc., (FelCor), covering all of the hotels (15,790 rooms) owned by FelCor and managed by the Group. Seventeen hotels (6,301 rooms) will be retained by FelCor and managed by the Group, with revised contract terms (duration extended to 2025) and rebased incentive fees on all the hotels. HPT have purchased seven of the hotels (2,072 rooms) from FelCor for \$160m, retaining the Group flag on these assets. There is no increase in the guarantees to HPT as a result of this deal. Nine further hotels (2,463 rooms) can be sold by FelCor, retaining a Group brand. FelCor has the right to sell or convert a further 15 hotels (4,954 rooms); these may retain the Group flag.

Since the year end, the Group has sold its entire shareholding in FelCor for \$191m in cash.

operating and financial review

FIGURE 3

Asset disposal programme detail	Number of hotels	Proceeds	Net book value
Disposed to date	144	£2.3bn	£2.2bn
On the market	31	–	£0.6bn
Remaining hotels	22	–	£0.9bn

FIGURE 4

Return of funds programme	Timing	Total return	Returned to date	Still to be returned
£501m special dividend	Paid December 2004	£501m	£501m	Nil
First £250m share buyback	Completed in 2004	£250m	£250m	Nil
Second £250m share buyback	Ongoing	£250m	£211m	£39m
£996m capital return	Paid 8 July 2005	£996m	£996m	Nil
Third £250m share buyback	Yet to commence	£250m	–	£250m
£500m special dividend	Second quarter 2006	£500m	–	£500m
Total		£2,747m	£1,958m	£789m

Return of Funds

IHG's second £250m on-market share repurchase programme was announced in September 2004 and commenced in December 2004. In 2005, 30.6 million shares were repurchased at an average price of 672p making the total purchased under the second programme £211m. On 8 September 2005, IHG announced a further £250m share repurchase programme to commence on completion of the second programme. The precise timing of share purchases will be dependent on, amongst other things, market conditions. Purchases are under the existing authority from shareholders which will be renewed at the Annual General Meeting. Any shares repurchased under this programme will be cancelled.

On 8 July 2005, IHG returned a further £996m capital to shareholders following the capital reorganisation of the Group completed in June 2005. Under the reorganisation, shareholders received 11 new ordinary shares and £24.75 cash in exchange for every 15 existing ordinary shares held on 24 June 2005.

A more detailed explanation of the capital reorganisation is contained in the Directors' Report on page 18.

In March 2006, IHG announced that a £500m special dividend will be paid to shareholders in the second quarter of 2006.

Since April 2003, IHG has announced the return of £2.75bn of funds to shareholders by way of special dividends, share repurchase programmes and capital returned (see figure 4).

Management and Organisation

During 2005, a number of key organisational changes were made to support the achievement of IHG's strategic priorities, including:

- the appointment of Stevan Porter as Global Leader, Franchise Strategy with responsibility for the development and deployment of best practice in franchising globally in addition to his role as President, The Americas;
- the appointment of Peter Gowers as Chief Marketing Officer, with responsibility for the development of IHG's worldwide brand priorities and brand management;
- expanding the role of Richard Solomons, Finance Director to include the development of relationships with major investors operating in multiple countries;
- the realignment of certain functions (Finance, Human Resources and Information Technology) under global functional heads to gain synergies and increase the focus of the organisation on achieving the strategic priorities; and
- the appointment of Tracy Robbins as Executive Vice President, Human Resources.

On 31 January 2006, the Group announced the appointment of Tom Conophy as Chief Information Officer.

GROUP PERFORMANCE

	12 months ended 31 December 2005			12 months ended 31 December 2004		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Summary Results						
Revenue:						
Hotels:						
Americas	400	45	445	319	176	495
EMEA	326	285	611	301	528	829
Asia Pacific	84	57	141	71	63	134
Central	42	–	42	40	–	40
Total Hotels	852	387	1,239	731	767	1,498
Soft Drinks	–	671	671	–	706	706
	852	1,058	1,910	731	1,473	2,204
Operating profit:						
Hotels:						
Americas	187	11	198	150	23	173
EMEA	47	57	104	24	105	129
Asia Pacific	21	11	32	17	7	24
Central	(65)	–	(65)	(57)	–	(57)
Total Hotels	190	79	269	134	135	269
Soft Drinks	–	70	70	–	77	77
Operating profit before other operating income and expenses	190	149	339	134	212	346
Other operating income and expenses	(22)	–	(22)	(49)	–	(49)
Operating profit	168	149	317	85	212	297
Interest	(24)	(9)	(33)	(33)	–	(33)
Profit before tax	144	140	284	52	212	264
Adjusted earnings per share (pence)	24.9p		38.2p	17.3p		33.9p

Group revenue for the 12 months ended 31 December 2005 was £1,910m, compared with £2,204m for the 12 months ended 31 December 2004.

Discontinued operations represents the results from operations that have been sold or are held for sale and where there is a co-ordinated plan of disposal. In this OFR, discontinued operations includes Soft Drinks, the UK, US and Australasian hotels sold since 1 January 2004, and the portfolio of 24 predominantly midscale European hotels. Discontinued revenue totalled £1,058m in 2005.

Revenue from continuing operations for the 12 months to 31 December 2005 was £852m, 17% up on 2004. Total operating profit before other operating income and expenses was £339m in the 12 months to 31 December 2005, compared with £346m in 2004. For continuing operations, operating profit before other operating income and expenses was 42% up on 2004 at £190m.

Profit before tax was £284m in the 12 months to 31 December 2005 against £264m in the previous year; for continuing operations, profit before tax was £144m compared with £52m in 2004.

Basic earnings per share were 95.2p compared with 53.9p in the 12 months to 31 December 2004. Adjusted earnings per share, excluding special items and the gain on disposal of assets to give a more meaningful comparison of ongoing performance, was 38.2p in 2005, up 13% on 2004. For continuing operations, adjusted earnings per share was 24.9p, 44% up on 2004.

SOFT DRINKS

The Group results include the results of Soft Drinks for the period up until the IPO of Britvic plc on 14 December 2005.

The disposal of Soft Drinks led to the Group receiving proceeds of approximately £371m (including additional dividends) and removed £341m of previously consolidated Soft Drinks debt from the balance sheet.

	Periods ended	
	14 Dec 2005 £m	31 Dec 2004 £m
Soft Drinks		
Revenue	671	706
Operating profit before other operating income and expenses	70	77

operating and financial review

HOTELS	12 months ended		3 months ended				3 months ended			
	31 Dec 2005 £m	31 Dec 2004 £m	31 Mar 2005 £m	30 Jun 2005 £m	30 Sep 2005 £m	31 Dec 2005 £m	31 Mar 2004 £m	30 Jun 2004 £m	30 Sep 2004 £m	31 Dec 2004 £m
Hotels Results										
Revenue:										
Americas	445	495	114	110	111	110	115	131	125	124
EMEA	611	829	183	191	124	113	190	214	212	213
Asia Pacific	141	134	36	36	35	34	33	31	31	39
Central	42	40	10	10	10	12	10	11	9	10
	1,239	1,498	343	347	280	269	348	387	377	386
Analysed as:										
Continuing operations	852	731	176	225	222	229	162	191	188	190
Discontinued operations	387	767	167	122	58	40	186	196	189	196
Operating profit before other operating income and expenses:										
Americas	198	173	44	53	53	48	33	49	48	43
EMEA	104	129	26	47	20	11	16	34	34	45
Asia Pacific	32	24	9	6	7	10	7	4	5	8
Central	(65)	(57)	(14)	(18)	(16)	(17)	(10)	(18)	(11)	(18)
	269	269	65	88	64	52	46	69	76	78
Analysed as:										
Continuing operations	190	134	29	58	55	48	24	39	44	27
Discontinued operations	79	135	36	30	9	4	22	30	32	51

Hotels revenue from continuing operations increased by 17% with particularly strong growth in the Americas, up 25% to £400m. EMEA and Asia Pacific also recorded growth in revenue from continuing operations of 8.3% and 18% respectively. Total revenue fell by 17% to £1,239m.

Operating profit before other operating income and expenses, for continuing operations, achieved strong growth from £134m in 2004 to £190m, a 42% increase. The Americas and EMEA regions were the main contributors to this growth, being 25% and 96% ahead of 2004, respectively.

With the weighted average US dollar exchange rate to sterling being similar to that in 2004 (2005 \$1.83 : £1, 2004 \$1.82 : £1), growth rates for results expressed in US dollars were similar to those in sterling. Operating profit before other operating income and expenses was level with 2004 at \$492m, and for continuing operations increased by 43% to \$347m.

One measure of overall IHG hotel system performance is the growth in total gross revenue, with total gross revenue defined as total room revenue from franchised hotels and total hotel revenue from managed, owned and leased hotels. It is not revenue attributable to IHG, derived as it is from hotels owned by third-parties, but is highlighted as a metric to indicate the scale and reach of IHG's brands. Total gross revenue increased by approximately 9% from \$12.8bn in 2004 to \$13.9bn in 2005.

FIGURE 5

Global hotel and room count at 31 December 2005	Hotels		Rooms	
	2005	Change over 2004	2005	Change over 2004
Analysed by brand:				
InterContinental	137	5	46,262	1,746
Crowne Plaza	235	20	65,404	3,777
Holiday Inn	1,435	(49)	267,816	(10,971)
Holiday Inn Express	1,590	78	133,554	7,519
Staybridge Suites	87	8	9,915	726
Candlewood Suites	112	3	12,683	276
Hotel indigo	3	2	497	357
Other brands	7	(1)	1,402	(99)
Total	3,606	66	537,533	3,331
Analysed by ownership type:				
Owned and leased	55	(111)	15,485	(22,935)
Managed	504	101	121,249	22,296
Franchised	3,047	76	400,799	3,970
Total	3,606	66	537,533	3,331

Room Count and Pipeline

The IHG global system (that is, the number of hotels/rooms owned, leased, managed or franchised by the Group) grew significantly during 2005 ending the year at 3,606 hotels and 537,533 rooms, 66 hotels and 3,331 rooms higher than at 31 December 2004 (see figure 5). During the year, 254 hotels with 34,880 rooms joined the system, while 188 hotels with 31,549 rooms left the system. Of the hotels leaving the system 139 (21,764 rooms) were in the Americas and 46 (7,896 rooms) were in EMEA. The EMEA removals included 6,338 rooms from the termination of franchise agreements in South Africa.

Excluding the South African franchise removals and eight hotels (2,135 rooms) exiting the system due to hurricane damage, net system size increased by 101 hotels (11,804 rooms).

One of the key elements of the asset disposal programme is the retention of management contracts for the hotels sold. Of those sold since April 2003, management contracts or franchise agreements were retained on 126 hotels. Overall, the number of owned and leased rooms fell by 22,935 while the number of managed and franchised rooms in the system grew by 22,296 rooms and 3,970 rooms respectively.

At the end of 2005, the number of rooms in the pipeline (that is, contracts signed but hotels/rooms yet to enter the system) was 108,512 – 31% up on 31 December 2004 and the highest ever for the Group (see figure 6). This positions the Group well to achieve its stated

FIGURE 6

Global pipeline at 31 December 2005	Hotels		Rooms	
	2005	Change over 2004	2005	Change over 2004
Analysed by brand:				
InterContinental	27	6	9,353	2,513
Crowne Plaza	54	17	13,514	4,201
Holiday Inn	204	48	31,035	5,630
Holiday Inn Express	429	71	38,066	6,351
Staybridge Suites	79	27	8,195	2,843
Candlewood Suites	83	37	7,467	3,583
Hotel indigo	8	5	882	494
Total	884	211	108,512	25,615
Analysed by ownership type:				
Owned and leased	2	–	574	(96)
Managed	98	14	27,805	5,387
Franchised	784	197	80,133	20,324
Total	884	211	108,512	25,615

goal of organic growth of 50,000 to 60,000 net rooms in the period June 2005 to December 2008. Whilst there is no guarantee that all of the pipeline will enter the system in that period, a number of initiatives are in place to both secure new deals and to reduce the time between a hotel signing with IHG and opening.

The growth in pipeline was fuelled by record signings during 2005; 69,970 rooms were signed which was over 60% up on the average for the last five years. This partly reflects the increased investment in development resource particularly in the Americas and Asia Pacific.

Reservation Systems and Loyalty Programme

IHG supports revenue delivery into its hotels through its global reservation systems and global loyalty programme, Priority Club Rewards. In 2005, global system room revenue booked through IHG's reservation channels rose by approximately 19% to \$4.8bn, and the proportion of IHG global system room revenue booked via IHG's reservation channels increased from 38% to 41%.

The internet channel continued to show strong growth, with global system room revenue booked via the internet increasing by 23% to \$1.7bn, accounting for approximately 14% of IHG global system room revenue (up from 13% in 2004).

Room revenue generated from Priority Club Rewards members was \$3.8bn and represented approximately 32% of IHG global system room revenue.

operating and financial review

Americas Results	12 months ended			
	31 Dec 2005 \$m	31 Dec 2004 \$m	Change %	
Revenue:				
Owned and leased	224	171	31.0	
Managed	118	55	114.5	
Franchised	389	357	9.0	
Continuing operations	731	583	25.4	
Discontinued operations*	82	319	(74.3)	
Total	\$m	813	902	(9.9)
Sterling equivalent	£m	445	495	(10.1)
Operating profit before other operating income and expenses:				
Owned and leased	28	7	300.0	
Managed	36	12	200.0	
Franchised	340	304	11.8	
	404	323	25.1	
Regional overheads	(62)	(50)	24.0	
Continuing operations	342	273	25.3	
Discontinued operations*	20	42	(52.4)	
Total	\$m	362	315	14.9
Sterling equivalent	£m	198	173	14.5

* Discontinued operations are all owned and leased.

Americas

Revenue for the Americas fell by 9.9% to \$813m in 2005 as a result of the hotel disposals which occurred predominantly in the first half of the year. Revenue from continuing operations, however, increased by 25% to \$731m. Operating profit before other operating income and expenses was 15% up on 2004 at \$362m, and for continuing operations, performance was very strong with a 25% increase in operating profit to \$342m against \$273m in 2004.

Continuing owned and leased revenue increased by over 30% driven by strong trading in the comparable estate (those hotels fully trading as owned and leased in both financial years). Comparable RevPARs (revenue per available room) were 17.7% up for InterContinental and 14.0% up for Holiday Inn with average daily rate growth fuelling the increased RevPAR (see figure 7). The InterContinental Buckhead, Atlanta also contributed its first full year of trading after opening in November 2004. These revenue increases together with improved operating efficiency in the hotels led to continuing owned and leased operating profit increasing significantly over 2004, from \$7m to \$28m.

FIGURE 7

Americas RevPAR movement on previous year

	12 months ended 31 Dec 2005
Owned and leased (comparable):	
InterContinental	17.7%
Holiday Inn	14.0%
Managed (comparable):	
InterContinental	16.2%
Crowne Plaza	12.9%
Holiday Inn	11.0%
Staybridge Suites	9.1%
Candlewood Suites	14.8%
Franchised:	
Crowne Plaza	8.4%
Holiday Inn	9.2%
Holiday Inn Express	10.3%

Managed revenue increased from \$55m in 2004 to \$118m as a result of strong trading in the comparable estate boosted by the 13 hotels sold to HPT and the two hotels acquired by SHC. Managed revenue also includes \$70m (2004 \$27m) from properties (including the InterContinental San Juan sold in the year) that are structured, for legal reasons, as operating leases but with the same economic characteristics as a management contract. Overall, managed RevPARs grew by 16.2% for InterContinental, 12.9% for Crowne Plaza, 11.0% for Holiday Inn, 9.1% for Staybridge Suites and 14.8% for Candlewood Suites. Managed operating profit increased from \$12m to \$36m including \$9m (2004 \$3m) from the managed properties held as operating leases, including a contribution from the 15 hotels moving from ownership to management.

Franchised revenue increased by 9.0% to \$389m as a result of strong trading and increased room count and signings. RevPARs across the brands showed strong growth, with Holiday Inn RevPAR 9.2% up on 2004, Holiday Inn Express 10.3% up and Crowne Plaza 8.4% up. The franchise estate increased by 3,878 rooms in the year with the most significant increase being in the Holiday Inn Express brand. Franchised revenue also benefited from the number of signings in 2005 with a record 47,245 room signings (50% up on 2004) leading to higher sales revenues than in 2004. Franchised operating profit rose by \$36m to \$340m.

FIGURE 8

Americas hotel and room count at 31 December 2005	Hotels		Rooms	
	2005	Change over 2004	2005	Change over 2004
Analysed by brand:				
InterContinental	45	1	15,328	240
Crowne Plaza	133	17	37,074	3,429
Holiday Inn	1,027	(47)	195,004	(10,496)
Holiday Inn Express	1,425	68	115,810	5,928
Staybridge Suites	87	8	9,915	726
Candlewood Suites	112	3	12,683	276
Hotel indigo	3	2	497	357
Other brands	2	(1)	295	(181)
Total	2,834	51	386,606	279
Analysed by ownership type:				
Owned and leased	12	(16)	4,251	(5,591)
Managed	208	3	45,320	1,992
Franchised	2,614	64	337,035	3,878
Total	2,834	51	386,606	279

FIGURE 9

Americas pipeline at 31 December 2005	Hotels		Rooms	
	2005	Change over 2004	2005	Change over 2004
Analysed by brand:				
InterContinental	7	3	3,705	1,841
Crowne Plaza	23	5	4,612	671
Holiday Inn	153	49	19,041	5,718
Holiday Inn Express	389	71	32,963	6,376
Staybridge Suites	79	27	8,195	2,843
Candlewood Suites	83	37	7,467	3,583
Hotel indigo	8	5	882	494
Total	742	197	76,865	21,526
Analysed by ownership type:				
Owned and leased	2	1	574	154
Managed	13	1	3,941	1,117
Franchised	727	195	72,350	20,255
Total	742	197	76,865	21,526

Americas regional overheads increased to \$62m from \$50m in 2004, reflecting investment in additional development resources and information technology.

Americas hotel and room count grew by a net 51 hotels (279 rooms) to 2,834 hotels (386,606 rooms) (see figure 8). 190 hotels (22,043 rooms) entered the system and 139 hotels (21,764 rooms) left the system. Of the removals, 83 hotels (16,188 rooms) were Holiday Inn and 53 hotels (4,561 rooms) were Holiday Inn Express. Of the removals nearly 60% were enforced by IHG as a result of quality or financial concerns.

The Americas pipeline grew to record levels, 742 hotels (76,865 rooms), with 447 hotels (49,765 rooms) signing contracts during the year to enter the system (see figure 9). Of these signings, 19,355 rooms were Holiday Inn Express.

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EMEA Results	12 months ended		
	31 Dec 2005 £m	31 Dec 2004 £m	Change %
Revenue:			
Owned and leased	236	231	2.2
Managed	55	43	27.9
Franchised	35	27	29.6
Continuing operations	326	301	8.3
Discontinued operations*	285	528	(46.0)
Total	£m 611	829	(26.3)
Dollar equivalent	\$m 1,115	1,511	(26.2)
Operating profit before other operating income and expenses:			
Owned and leased	11	2	450.0
Managed	31	24	29.2
Franchised	26	21	23.8
	68	47	44.7
Regional overheads	(21)	(23)	(8.7)
Continuing operations	47	24	95.8
Discontinued operations*	57	105	(45.7)
Total	£m 104	129	(19.4)
Dollar equivalent	\$m 189	235	(19.6)

* Discontinued operations are all owned and leased.

Europe, Middle East and Africa (EMEA)

The EMEA operating model changed in 2005 as a result of the disposal of 73 hotels in the UK to LRG and a number of smaller transactions. As a result, the number of owned and leased hotels reduced by 85 whilst the number of managed hotels increased by 77, including 73 with LRG.

Revenue from continuing operations increased by 8.3% to £326m and continuing operating profit before other operating income and expenses increased by 96% to £47m.

Owned and leased revenue from continuing operations increased by 2.2% from £231m in 2004 to £236m. Performance across the region was mixed, with variable trading conditions in parts of Continental Europe. The refurbishment of the InterContinental London impacted the overall result, with the hotel being disrupted for most of the year and closed in the final quarter of the year. Owned and leased operating profit from continuing operations increased by £9m to £11m.

Managed revenue increased by £12m to £55m. The 2004 result benefited from the receipt of approximately £4m liquidated damages from the early termination of the InterContinental Barcelona management contract. The 2005 result was affected by a loss of earnings following the bombings in Beirut, but underlying

FIGURE 10**EMEA RevPAR movement on previous year**

	12 months ended 31 Dec 2005
Owned and leased (comparable):	
InterContinental	13.3%
Holiday Inn	(5.3)%
Holiday Inn UK	4.6%
France	5.6%
Germany	(0.3)%
Middle East	18.7%

FIGURE 11

EMEA hotel and room count at 31 December 2005	Hotels		Rooms	
	2005	Change over 2004	2005	Change over 2004
Analysed by brand:				
InterContinental	65	3	21,473	1,181
Crowne Plaza	64	1	16,031	284
Holiday Inn	320	(9)	50,944	(2,624)
Holiday Inn Express	161	8	16,971	1,050
Other brands	-	(1)	-	(222)
Total	610	2	105,419	(331)
Analysed by ownership type:				
Owned and leased	41	(85)	10,541	(15,029)
Managed	176	77	39,697	14,776
Franchised	393	10	55,181	(78)
Total	610	2	105,419	(331)

trading was strong, particularly in the Middle East where managed RevPAR increased by 11.9%. Management fees are also included from LRG for the hotels sold in May 2005 (including incentive fees); Holiday Inn UK RevPAR overall was up by 4.6% (see figure 10).

Franchised revenue for EMEA increased by £8m to £35m. Holiday Inn franchise RevPAR increased by 4.9% and Holiday Inn Express RevPAR increased by 5.9%. Franchised operating profit increased by £5m to £26m and included £7m liquidated damages for the termination of franchise agreements in South Africa.

EMEA hotel and room count was broadly level with 31 December 2004 at 610 hotels (105,419 rooms) despite the termination of the master franchise agreement in South Africa (6,338 rooms) (see figure 11). Two significant deals added hotels to the system during the year; five Holiday Inn hotels (602 rooms), in the UK from a franchise agreement with Stardon, a joint venture company formed between Starwood Capital Europe and Chardon Hotels, and 13 hotels (2,233 rooms) in the UK from a franchise agreement with Queens Moat Houses Limited.

The EMEA pipeline at 31 December 2005 was 86 hotels (14,278 rooms).

	12 months ended		
	31 Dec 2005	31 Dec 2004	Change %
Asia Pacific Results			
Revenue:			
Owned and leased	102	86	18.6
Managed	45	38	18.4
Franchised	6	5	20.0
Continuing operations	153	129	18.6
Discontinued operations*	104	115	(9.6)
Total	\$m 257	244	5.3
Sterling equivalent	£m 141	134	5.2
Operating profit before other operating income and expenses:			
Owned and leased	19	17	11.8
Managed	29	25	16.0
Franchised	5	3	66.7
Regional overheads	53	45	17.8
Continuing operations	(15)	(15)	-
Discontinued operations*	38	30	26.7
Total	\$m 59	44	34.1
Sterling equivalent	£m 32	24	33.3

* Discontinued operations are all owned and leased.

Asia Pacific

Asia Pacific revenue increased by 5.3% to \$257m and operating profit before other operating income and expenses increased by 34% to \$59m. Discontinued operations mainly reflects the results for the ten owned and leased hotels sold in the last quarter of 2005 in two transactions. Revenue from continuing operations increased by 19% over 2004 whilst operating profit from continuing operations increased by 27%.

Continuing owned and leased operating profit grew from \$17m in 2004 to \$19m mainly reflecting strong trading in the InterContinental Hong Kong which achieved RevPAR growth of 11.7% over 2004, driven by average daily rate growth.

Asia Pacific managed operating profit grew strongly from \$25m to \$29m, reflecting both the impact of improved RevPAR and an increase in room count over 2004. Greater China managed RevPAR increased by 13.6% and Australia, New Zealand and South Pacific managed RevPAR increased by 6.1%.

Asia Pacific franchised operating profit increased by \$2m to \$5m.

FIGURE 12

Asia Pacific hotel and room count at 31 December 2005	Hotels		Rooms	
	2005	Change over 2004	2005	Change over 2004
Analysed by brand:				
InterContinental	27	1	9,461	325
Crowne Plaza	38	2	12,299	64
Holiday Inn	88	7	21,868	2,149
Holiday Inn Express	4	2	773	541
Other brands	5	1	1,107	304
Total	162	13	45,508	3,383
Analysed by ownership type:				
Owned and leased	2	(10)	693	(2,315)
Managed	120	21	36,232	5,528
Franchised	40	2	8,583	170
Total	162	13	45,508	3,383

FIGURE 13

Asia Pacific pipeline at 31 December 2005	Hotels		Rooms	
	2005	Change over 2004	2005	Change over 2004
Analysed by brand:				
InterContinental	11	6	3,269	1,436
Crowne Plaza	19	7	6,025	2,128
Holiday Inn	23	1	7,128	896
Holiday Inn Express	3	-	947	104
Total	56	14	17,369	4,564
Analysed by ownership type:				
Managed	56	14	17,369	4,564
Total	56	14	17,369	4,564

Regional overheads were level with 2004 at \$15m despite increased resources for the planned expansion in Greater China. During 2005, a further nine hotels (2,839 rooms) opened in Greater China and 20 hotels (7,308 rooms) signed contracts and entered the pipeline.

Overall, the number of hotels in Asia Pacific increased by 13 hotels (3,383 rooms) (see figure 12). During the year, ten owned and leased hotels (2,315 rooms) in Australia, New Zealand and Fiji were sold but retained with management contracts.

Asia Pacific pipeline grew by 14 managed hotels (4,564 rooms) primarily in the InterContinental and Crowne Plaza brands (see figure 13). In addition, on 15 February 2006, IHG announced that it had signed contracts with a single owner to manage six hotels (over 4,500 rooms) in China's Sichuan province, and on 24 February 2006, announced that it had signed contracts with an owner to manage four hotels, with over 1,400 rooms, also in China.

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	12 months ended			Change %
	31 Dec 2005 £m	31 Dec 2004 £m		
Central Results				
Revenue	42	40		5.0
Gross central costs	(107)	(97)		10.3
Net central costs	£m (65)	(57)		14.0
Dollar equivalent	\$m (118)	(102)		15.7

CENTRAL

Net central overheads increased by £8m reflecting increased governance costs, further investment to support development and the accounting treatment of share scheme costs. Under IFRS, the charges for share option schemes established after November 2002 are accounted for in the income statement. As share scheme awards are generally made annually and the accounting cost is spread over three years, 2005 is the first year that a full annual cost is taken into account. Total Hotels' overheads were flat year-on-year after adjusting for inflation.

OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses totalled a net expense of £22m in 2005 compared with a net expense of £49m in 2004. The £22m net expense in 2005 included:

- £13m costs relating to the further restructuring of the Hotels business;
- £9m costs of property damage relating to fire and natural disasters;
- £7m charge for impairment of property; and
- £7m credit for employee benefits curtailment as a result of the UK hotels disposal.

Other operating income and expenses are by their size and nature considered to be exceptional and are shown as special items and excluded from the calculation of adjusted earnings per share to give a more meaningful comparison of performance.

NET FINANCING COSTS

Net financing costs totalled £33m in 2005, the same as in 2004. In 2005, £9m related to Soft Drinks and is classified as discontinued operations. The prior year net financing expense included a net £11m charge that is treated as a special item and is excluded from the calculation of adjusted earnings per share.

TAXATION

The effective rate of tax on profit before tax, excluding the impact of special items, was 28.6%. By also excluding the impact of prior year items, which are included wholly within continuing operations, the equivalent effective tax rate would be 37.8%. This rate is higher than the UK statutory rate of 30% due mainly to overseas profits being taxed at rates higher than the UK statutory rate. The equivalent effective rates for 2004, restated under IFRS, were 17.3% and 38.6% respectively.

Taxation special items totalled an £8m credit (2004 £183m credit). In 2005, this represented the release of provisions which were special by reason of their size or incidence, relating to tax matters which were settled during the year, or in respect of which the statutory limitation period had expired. In 2004, taxation special items, in addition to such provision releases, included £83m for the recognition of a deferred tax asset in respect of capital losses.

Net tax paid in 2005 was £91m (2004 £35m) including £11m in respect of disposals.

GAIN ON DISPOSAL OF ASSETS

The gain on disposal of assets, net of related tax, totalled £311m in 2005 and mainly comprised a net gain on disposal of Soft Drinks of £284m and a net gain on hotel asset disposals of £27m.

EARNINGS

Basic earnings per share for 2005 were 95.2p, compared with 53.9p in 2004. Adjusted earnings per share, removing the non-comparable special items and gain on disposal of assets, were 38.2p, against 33.9p in 2004. Adjusted earnings per share for continuing operations were 24.9p, 44% up on last year.

DIVIDENDS

The Board has proposed a final dividend per share of 10.70p; with the interim dividend of 4.60p the normal dividend for 2005 totalled 15.30p.

SHARE PRICE AND MARKET CAPITALISATION

The InterContinental Hotels Group PLC share price closed at 839.50p on 31 December 2005, up from 647.50p on 31 December 2004. The market capitalisation of the Group at the year end was £3.6bn.

CAPITAL EXPENDITURE AND CASH FLOW

The net movement in cash and cash equivalents in the 12 months to 31 December 2005 was an inflow of £259m. This included a cash inflow from operations of £423m, and a net cash inflow from investing activities of £1,863m.

Proceeds from the disposal of operations and other financial assets totalled £2,046m and included proceeds from the sale of Soft Drinks £220m and hotels £1,826m.

Capital expenditure for Hotels totalled £136m, lower than 2004 as the Group continued its asset disposal programme. Capital expenditure in 2005 for Hotels included the InterContinental London and Holiday Inn Munich City Centre refurbishments and a rolling rooms refurbishment programme at the InterContinental Hong Kong.

CAPITAL STRUCTURE AND LIQUIDITY MANAGEMENT

Net debt at 31 December 2005 of £88m (see figure 14) was considerably lower than the average debt in the year (£700m) due to the receipt of funds from hotel sales and the Britvic IPO in the last three months of the year. The level of borrowings fluctuated throughout 2005 with the timing of receipts of disposal proceeds and returns to shareholders. Gearing (net debt expressed as a percentage of shareholders' equity) at 31 December 2005 was 8%.

FIGURE 14

	31 Dec 2005 £m	31 Dec 2004 £m
Net debt		
Borrowings:		
Sterling	–	247
US Dollar	220	335
Euro	488	799
Australian Dollar	–	86
Hong Kong Dollar	71	69
Other	–	2
Cash and cash equivalents	(686)	(422)
Less fair value of currency swaps (net)	(5)	–
Total	88	1,116

Note: all shown after the effect of currency swaps.

FIGURE 15

	31 Dec 2005 £m	31 Dec 2004 £m
Facilities		
Committed	1,163	1,697
Uncommitted	14	64
Total	1,177	1,761

Medium and long-term borrowing requirements at 31 December 2005 were met through a £1,100m syndicated bank facility which matures in November 2009. Short-term borrowing requirements were principally met from drawings under committed and uncommitted bilateral bank facilities. At the year end, the Group had £751m of committed facilities available for drawing.

The syndicated bank facility of the Group contains two financial covenants, interest cover and net debt/Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA). The Group is in compliance with both covenants neither of which is expected to represent a material restriction on funding or investment policy in the foreseeable future.

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

Treasury seeks to reduce the financial risk of the Group and ensures that there is sufficient liquidity to meet all foreseeable cash needs. One of the primary objectives of the treasury risk management policy is to mitigate 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. A general weakening of the US dollar (specifically a one cent rise in the sterling:US dollar rate) would have reduced the Group's profit before tax by an estimated £1m.

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

Interest rate exposure is managed within parameters that stipulate that fixed rate borrowings should normally account for no less than 25%, and no more than 75%, of net borrowings for each major currency. This is achieved through the use of interest rate swaps and options and forward rate agreements.

Based on the year end net debt position, and given the underlying maturity profile of investments, borrowings and hedging instruments at that date, a one percentage point rise in US dollar interest rates would increase the net interest charge by approximately £1m whilst a one percentage point rise in euro interest rates would increase the net interest charge by approximately £4m.

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FIGURE 16

Interest risk profile of gross debt for major currencies (including currency swaps)	31 Dec 2005 %	31 Dec 2004 %
At fixed rates	36	27
At variable rates	64	73

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 set for individual counterparties. Most of the surplus funds are held in the UK or US and there are no material funds where repatriation is restricted as a result of foreign exchange regulations.

ACCOUNTING POLICIES

The audited financial statements for the year ending 31 December 2005 are produced for the first time in line with IFRS. This has required the preparation of an opening balance sheet at 1 January 2004 to be prepared under IFRS, and a full income statement, balance sheet and cash flow statement for the year ending 31 December 2004 for comparative purposes.

Further details on accounting policy changes can be found in Corporate Information and Accounting Policies on page 38.

PENSIONS

As at 31 December 2005, the Group operated two main pension schemes, the InterContinental Hotels UK Pension Plan and the US-based InterContinental Hotels Pension Plan.

At 31 December 2005, the InterContinental Hotels UK Pension Plan had a deficit of £24m. The defined benefits section of this Plan is generally closed to new members.

The US-based InterContinental Hotels Pension Plan is closed to new members and pensionable service no longer accrues for current employee members. At 31 December 2005, the Plan had a deficit of £41m.

EMPLOYEES

IHG employed an average of 21,986 people worldwide in the year ended 31 December 2005.

The hospitality industry is a people-based business and IHG places great emphasis on:

- developing leaders;
- engaging and motivating its employees;
- rewarding and recognising achievement;
- pensions;
- health and safety;
- learning; and
- flexibility and diversity.

A more comprehensive discussion of the Group's employee focus can be found in the Annual Review and Summary Financial Statement 2005.

CORPORATE SOCIAL RESPONSIBILITY

The Group is committed to building a stronger culture of Corporate Social Responsibility (CSR) and to meeting its global obligations as one of the world's leading international hotel businesses. During 2005, the Board considered an analysis of the CSR opportunities and risks facing the business and its reputation, and reaffirmed its resolve to increase the Group's commitment to CSR during 2006. Further details can be found in the Annual Review and Summary Financial Statement 2005, and on the Company's website.

RISK FACTORS

This section describes some of the risks that could materially affect the Group's business. The risks outlined below should be considered in connection with any financial and forward-looking information in this OFR and the cautionary statements contained on page 89.

The risks below are not the only ones that the Group faces. Some risks are not yet known to the Group and some that the Group does not currently believe to be material could later turn out to be material. All of these risks could materially affect the Group's business, revenue, operating profit, earnings, net assets and liquidity and/or capital resources, and equal weight should be given to each of them.

The Group is exposed to the risks of political and economic developments

These include the risks of global and regional adverse political, economic and financial market developments, including recession, inflation and currency fluctuations that could lower revenues and reduce income. A recession would adversely affect room rates and/or occupancy levels and other income-generating activities resulting in deterioration of results of operations and potentially affecting the value of properties in affected economies.

Further political or economic factors or regulatory action could effectively prevent the Group from receiving profits from, or selling its investments in, certain countries, or otherwise adversely affect operations. For example, changes to tax rates or legislation in the jurisdictions in which the Group operates could decrease the proportion of the profits the Group is entitled to retain, or the Group's interpretation of various tax laws and regulations may prove to be incorrect, resulting in higher than expected tax charges. In addition, fluctuations in currency exchange rates between sterling, the currency in which the Group reports its financial statements, and the US dollar and other currencies in which the Group's international operations or investments do business, could adversely affect the Group's reported earnings and the value of its business. Fluctuations of this type have been experienced over recent years with the significant strengthening of the pound against the dollar. As the Group's profits have become increasingly weighted towards North America, such fluctuations may have a greater impact on the Group's reported results.

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

An event that materially damages the reputation of one or more of the Group's brands and/or failure to sustain the appeal of the Group's brands to its customers could have an adverse impact on the value of that brand and subsequent revenues from that brand or business.

In addition, the value of the Group's brands is influenced by a number of other factors including consumer preference and perception, commoditisation (whereby the price/quality becomes relatively more important than brand identifications), failure by the Group or its franchisees to ensure compliance with the significant regulations applicable to hotel operations (including fire and life safety requirements), or other factors affecting consumers' willingness to purchase goods and services, including any factor which adversely affects the reputation of those brands.

In particular, the extent to which the Group is able to enforce adherence to its operating and quality standards, or the significant regulations applicable to hotel operations, pursuant to its management and franchise contracts may further impact brand reputation or customer perception and therefore the value of the hotel brands.

Given the importance of brand recognition to the Group's business, the Group has invested considerable effort in protecting its intellectual property, including by registration of trademarks and domain names. If the Group is unable to protect its intellectual property, any infringement or misappropriation could materially harm its future financial results and ability to develop its business.

The Group is exposed to a variety of risks related to identifying, securing and retaining management and franchise agreements

The Group's growth strategy depends on its success in identifying, securing and retaining management and franchise agreements. Competition with other hotel companies may generally reduce the number of suitable management, franchise and investment opportunities offered to the Group, and increase the bargaining power of property owners seeking to engage a manager or become a franchisee. The terms of new management or franchise agreements may not be as favourable as current arrangements and the Group may not be able to renew existing arrangements on the same terms. There can also be no assurance that the Group will be able to identify, retain or add franchisees to the Group system or to secure management contracts. For example, the availability of suitable sites, planning and other local regulations or the availability of finance may all restrict the supply of suitable hotel development opportunities under franchise or management agreements. There are also risks that significant franchisees or groups of franchisees may have interests that conflict, or are not aligned, with those of the Group. In connection with entering into management or franchise agreements, the Group may be required to make investments in or guarantee the obligations of third-parties or guarantee minimum income to third-parties. Changes in legislation or regulatory changes may be implemented that have the effect of favouring franchisees relative to brand owners.

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

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

The Group is exposed to certain risks in relation to technology and systems

To varying degrees, the Group is reliant upon certain technologies and systems (including Information Technology systems) for the running of its business, particularly those which are highly integrated with business processes, and disruption to those technologies or systems could adversely affect the efficiency of the business, notwithstanding business continuity or disaster recovery processes. The Group may have to make substantial additional investments in new technologies or systems to remain competitive. Failing to keep pace with developments in technologies or systems may put the Group at a competitive disadvantage. The technologies or systems that the Group chooses may not be commercially successful or the technology or system strategy employed may not be sufficiently aligned to the needs of the business or responsive to changes in business strategy. As a result, the Group could lose customers, fail to attract new customers or incur substantial costs or face other losses. Additionally, failure to develop an appropriate e-commerce strategy and select the right partners could erode the Group's market share.

The Group may face difficulties insuring its business

Historically, the Group has maintained insurance at levels determined by it to be appropriate in light of the cost of cover and the risk profiles of the business in which it operates. However, forces beyond the Group's control, including market forces, may limit the scope of coverage the Group can obtain as well as the Group's ability to obtain coverage at reasonable rates. Other forces beyond the Group's control, such as terrorist attacks or natural disasters, may be uninsurable or simply too expensive to insure against. Inadequate or insufficient insurance could expose the Group to large claims or could result in the loss of capital invested in properties as well as the anticipated future revenue from properties, and could leave the Group responsible for guarantees, debt or other financial obligations related to the property.

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

The future operating results of the Group could be adversely affected by industry over-capacity (by number of rooms) and weak demand or other differences between planning assumptions and actual operating conditions. Reductions in room rates and occupancy levels would adversely impact the results of operations of the Group.

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

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

A decrease in the demand for hotel rooms as a result of such events may have an adverse impact on the Group's operations and financial results. In addition, inadequate preparedness, contingency planning or recovery capability in relation to a major incident or crisis may prevent operational continuity and consequently impact the value of the brand or the reputation of the Group.

The Group is reliant upon its proprietary reservation system and is exposed to the risk of failures in the system and increased competition in reservation infrastructure

The value of the brands of the Group is partly derived from the ability to drive reservations through its proprietary HolidexPlus reservation system, an electronic booking and delivery channel directly linked to travel agents, hotels and internet networks. Inadequate disaster recovery arrangements, or inadequate continued investment in this technology, leading to loss of key communications linkages, particularly in relation to HolidexPlus, internet reservation channels and other key parts of the IT infrastructure for a prolonged period, or permanently, may result in significant business interruption and subsequent impact on revenues.

The Group is also exposed to the risk of competition from third-party intermediaries who provide reservation infrastructure. In particular, any significant increase in the use of these reservation channels in preference to proprietary channels may impact the Group's ability to control the supply, presentation and price of its room inventory.

The Group may experience a lack of selected acquisition opportunities

While the strategy of the Group is to extend the hotel network through activities that do not involve significant capital, in some cases the Group may consider it appropriate to acquire new land or locations for the development of new hotels. If the availability of suitable sites becomes limited, this could adversely affect its results of operations.

The Group is exposed to the risk of litigation

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

Exposure to litigation or fines imposed by regulatory authorities may affect the reputation of the Group even though the monetary consequences are not significant.

The Group is exposed to a variety of risks associated with its ability to borrow and satisfy debt covenants

The Group is reliant on having access to borrowing facilities to meet its expected capital requirements and to maintain an efficient balance sheet. The majority of the Group's borrowing facilities are only available if the financial covenants in the facilities are complied with. If the Group is not in compliance with the covenants, the lenders may demand the repayment of the funds advanced. If the Group's financial performance does not meet market expectations it may not be able to refinance its existing facilities on terms it considers favourable. The availability of funds for future financing is in part dependent on conditions and liquidity in the capital markets.

The Group is required to comply with data privacy regulations

Existing and emerging data privacy regulations limit the extent to which the Group can use customer information for marketing or promotional purposes. Compliance with these regulations in each jurisdiction in which the Group operates may require changes in marketing strategies and associated processes which could increase operating costs or reduce the success with which products and services can be marketed to existing or future customers. In addition, non-compliance with privacy regulations may result in fines, damage to reputation or restrictions on the use or transfer of information.

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

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

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

The trustees of the UK defined benefits plans can demand increases to the contribution rates relating to the funding of those pension plans, which would oblige the relevant members of the Group to contribute extra amounts to such pension funds. The trustees must consult the plans' actuary and principal employer before exercising this power. In practice, contribution rates are agreed between the Group and the trustees on actuarial advice, and are set for three-year terms. The last such review was as at 31 March 2004. As at 1 March 2006, being the latest practicable date prior to publication of this document, the Directors are not aware of any circumstances that would cause the trustees to deem it necessary to unilaterally increase the contribution rates.

directors' report

The Directors present their report for the financial year ended 31 December 2005.

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 until December 2005, the Group was involved in the manufacture and distribution of soft drinks in the UK.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The Operating and Financial Review (OFR) on pages 1 to 17, together with the Chairman's Statement, the Chief Executive's Review and the business reviews presented in the Annual Review and Summary Financial Statement provide information about the Group's strategy, its businesses, their financial performance during the year, the principal risks and uncertainties facing the Group and likely developments.

SIGNIFICANT DISPOSALS DURING THE YEAR

During 2005, the Group made further significant progress in its hotels disposal programme, details of which are provided in the OFR on page 3. In December 2005, the Group disposed of its entire interest in the Britvic Group, a manufacturer and distributor of soft drinks in the UK.

RESULTS AND DIVIDENDS

The profit on ordinary activities before taxation was £284m. An interim dividend of 4.60p per share was paid on 17 October 2005. The Directors are recommending a final dividend of 10.70p per share to be paid on 5 June 2006 to shareholders on the Register at close of business on 31 March 2006. Total dividends relating to the year will amount to £66m.

The Group intends to return a further £500m to shareholders during the second quarter of 2006 by way of a special interim dividend and, subject to shareholder approval, an accompanying share consolidation.

FINANCIAL INSTRUMENTS

The Group's financial risk management objectives and policies can be found on pages 13 and 14 of the OFR.

CAPITAL REORGANISATION AND SCHEME OF ARRANGEMENT

The Group returned £996m to shareholders under a Court-approved scheme of arrangement which resulted in a new listed company becoming the parent company of the Group. The former parent company of the Group was re-registered as a limited company and renamed InterContinental Hotels Limited shortly after introduction of the new parent company of the Group.

As a result of the scheme of arrangement, shareholders received 11 ordinary shares and £24.75 in cash for every 15 ordinary shares held on the record date of 24 June 2005.

The scheme of arrangement was approved by the High Court of Justice in England and Wales on 24 June 2005 and became effective on 27 June 2005. The shares in the capital of the former parent company of the Group held by its shareholders were

cancelled and new shares of equivalent nominal value were issued to the new parent company on 27 June 2005.

On 29 June 2005, the High Court of Justice in England and Wales approved a reduction of capital of the Company by decreasing the nominal amount of each share issued from £6.25 to 10p. The reduction of capital became effective on 30 June 2005. The cash payment was made to shareholders on 8 July 2005.

SHARE REPURCHASES

During the year, 30,600,010 ordinary shares were purchased and cancelled at a cost of £205,672,566 (excluding transaction costs) under IHG's planned share repurchase programmes. Of these, 19,460,010 were 112p shares in the capital of the former parent company of the Group, purchased at an average price of 631p per share and 11,140,000 were 10p shares in the capital of the new parent company of the Group, purchased at an average price of 744p.

Shares purchased and cancelled represented approximately 7% of the issued share capital of InterContinental Hotels Group PLC at the start of the year and were purchased and cancelled under the authorities granted by shareholders at Extraordinary General Meetings held on 10 December 2004 and 1 June 2005 respectively.

The share buyback authority remains in force until the Annual General Meeting in 2006, and a resolution to renew the authority will be put to shareholders at that Meeting.

SHARE PLANS

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 InterContinental Hotels Group PLC (IHG PLC or the Company) shares. During the year, 4,138,482 such options were exercised, leaving a total of 7,909,002 such options outstanding at prices ranging from 308.48p to 593.29p.

Following Separation, the Six Continents PLC shares held by the Trustee of the **Six Continents Employee Profit Share Scheme** on behalf of beneficiaries were exchanged for IHG PLC and Mitchells & Butlers plc shares. During 2005, the Trust released 659,665 IHG PLC shares out of profits previously appropriated to them by the Six Continents PLC Board in 2002. This was the final release of shares held in the Trust under the Scheme which is no longer operational. Consequently, at 31 December 2005, there were no shares held in the Trust.

During 2005, 581,242 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 2,798 eligible employees, subject to the Plan rules. Following the disposal of IHG's interest in the Britvic Group on 14 December 2005, no further awards over IHG PLC shares will be made in respect of the Plan. Shares accumulated in the Trust prior to the disposal of IHG's interest in the Britvic Group will continue to be held in trust for a maximum period of five years.

In 2005, options were granted under the **Executive Share Option Plan** to 58 employees, over 2,104,570 IHG PLC shares at 619.83p per share.

During 2005, conditional rights over 5,173,633 IHG PLC shares were awarded to employees under the **Performance Restricted Share Plan** and 1,277,838 IHG PLC shares were released to employees under the Plan.

A number of employees participated in the **Short Term Deferred Incentive Plan** during the year and conditional rights over 624,508 IHG PLC shares were awarded to participants. A number of participants are eligible to receive an award in IHG PLC shares on 8 March 2006.

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, 2,448,632 new IHG PLC shares were issued under employee share plans and the ordinary share capital at 31 December 2005 consisted of 432,936,345 IHG PLC shares of 10p each.

SUBSTANTIAL SHAREHOLDINGS

As at 1 March 2006, the Company has been notified by shareholders of the following substantial interests (3% or more) in its ordinary share capital:

Lloyds TSB Group Plc 4.51%
Legal & General Group Plc 3.17%

DIRECTORS

Details of Directors who served on the Board during the year and their share interests are shown on page 21 and on pages 30 to 33 respectively. 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 309(5) of the Companies Act 1985.

EMPLOYEES

IHG employed an average of 21,986 people worldwide in the year ended 31 December 2005.

The Group is committed to providing equality of opportunity to all employees without discrimination and continues to be supportive of the employment of disabled persons. Where existing employees become disabled, it is the Group's policy to provide continuing employment wherever practicable in the same or an alternative position.

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

Further information regarding the Group's employment policies and its approach towards developing its people can be found on pages 22 and 23 of the Annual Review and Summary Financial Statement.

CORPORATE SOCIAL RESPONSIBILITY

IHG believes that Corporate Social Responsibility makes sound business sense, and seeks to embed good practice throughout the Group. The Board has adopted a specific Code of Ethics for senior financial officers, consistent with the Group's existing Guidelines for Proper Business Conduct.

IHG continues to support community initiatives and charitable causes. During the year, the Group donated £800,000 to these causes. 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 2005 are estimated at £936,000.

More details of the Group's charitable, community, environmental and socially responsible activities and policies are provided on pages 18 to 21 of the Annual Review and Summary Financial Statement. IHG's Corporate Social Responsibility activities are also published on its website www.ihgplc.com

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

POLICY ON PAYMENT OF SUPPLIERS

InterContinental Hotels Group 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.

GOING CONCERN

The financial statements which appear on pages 34 to 75 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 have taken steps to make themselves aware of relevant audit information. None of the Directors is aware of any relevant audit 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 11.00am on Thursday, 1 June 2006 is contained in a circular sent to shareholders with this Report.

By order of the Board

Richard Winter
Company Secretary
1 March 2006

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 2005 with the exception only of the item highlighted in this report (the temporary combined role of Chairman and Chief Executive).

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 2005, 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 well under way 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 for the December 2006 year end.

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 seven 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. These may be found on the Company's website.

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. The regular Board meetings were held, as planned, during 2005. These were attended by all Directors with the exception that Sir David Prosser, Robert C Larson and Jonathan Linen could not attend one meeting each. Sir Howard Stringer was unable to attend three meetings. Despite being unable to attend meetings, these Directors were provided with all the papers and information relating to each meeting and were able to discuss matters arising with the Chairman and the Chief Executive.

In addition to the regular meetings, one Board meeting was held at relatively short notice following completion of the capital reorganisation of the Group to deal with a number of formal and technical matters arising from the reorganisation. All Directors were provided with background information for this meeting, but only David Webster, Andrew Cosslett and Richard Solomons were required to attend.

There have therefore been occasions when individual Non-Executive Directors have been unable to attend a Board 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 Group business, reviewing proposals and projects, and generally overseeing Group affairs. Any such non-attendance is occasional and the Board is satisfied that all Directors remain committed to their roles and responsibilities.

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 two Board meetings a year are held overseas.

A formal performance evaluation of the Board, its Committees and Directors was undertaken shortly after the year end. The evaluation was conducted in accordance with the suggestions for good practice contained in the Higgs Report, with the assistance of a third-party facilitator, having regard to the potential for performance improvement. The Chairman's performance was also reviewed in consultation with the other Non-Executive Directors. Evaluation of the Board as a whole was conducted by the facilitator in consultation with all the Directors. Board Committees were evaluated by the facilitator in consultation with the Chairman and members of each Committee.

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. Also, 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
Andrew Cosslett	Chief Executive	3.2.05
Richard Solomons	Finance Director	10.2.03
Richard Hartman	President, Europe, Middle East and 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
Jennifer Laing	Non-Executive Director	25.8.05
Robert C Larson	Non-Executive Director	15.4.03
Jonathan Linen	Non-Executive Director	1.12.05
Sir David Prosser	Non-Executive Director	15.4.03
Sir Howard Stringer	Non-Executive Director	15.4.03

Note: the capital reorganisation of the Group in June 2005 entailed the insertion of a new parent company of the Group. The dates shown above represent the original dates of appointment of each of the Directors to the Group's parent company.

Directors' biographical details are set out on pages 28 and 29 of the Annual Review and Summary Financial Statement 2005. These include their main external commitments.

The Non-Executive Directors who were appointed during the year, Jennifer Laing and Jonathan Linen, are participating in induction programmes designed to meet their individual needs and to introduce them to, and familiarise them with, the principal activities of the Group and with central and regional management. A comprehensive induction programme was also designed for Andrew Cosslett, Chief Executive, who joined the Group in February 2005. 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 hotels and other business premises, and through contact with employees at all levels.

CHAIRMAN

David Webster was Non-Executive Chairman throughout the year. At the start of the year he was also fulfilling the role of interim Chief Executive pending the appointment of Andrew Cosslett as Chief Executive on 3 February 2005, following which David Webster stood down as interim Chief Executive. Therefore, for a short period in 2005, the roles of Chairman and Chief Executive were not fulfilled by separate individuals, as required by the Combined Code. David Webster is Non-Executive Chairman of Makinson Cowell Limited. The Board is satisfied that this additional commitment has no adverse impact on the successful fulfilment of his duties to IHG.

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 Group externally and communicating particularly with

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shareholders. He also ensures that Directors receive a full, formal and tailored induction to the Group 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 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 Group's strategic objectives. He is responsible for the executive management of the Group. Andrew Cosslett is Non-Executive Chairman of Duchy Originals Foods Limited. He receives no remuneration for this role. The Board is satisfied that this additional commitment has no adverse impact on the successful fulfilment of his duties to IHG.

SENIOR INDEPENDENT DIRECTOR

David Kappler is the Senior Independent Director. His responsibilities include being available to liaise with shareholders who have issues to raise.

NON-EXECUTIVE DIRECTORS

A team of experienced independent Non-Executive Directors represents a strong source of advice and judgement. There are seven such Directors, in addition to the Non-Executive Chairman, each of whom has significant external commercial experience. The Non-Executive Directors, including the Chairman, meet during the year to consider the Group's business and management.

Robert C Larson was first appointed to the Board of the Group's predecessor parent company, Bass PLC, in 1996. Mr Larson may therefore be regarded as having served for over nine years as a Director. The Combined Code requires such Directors to be subject to rigorous performance review, and to be subject to election annually. The formal performance evaluation referred to above has confirmed Mr Larson's ongoing valuable contribution and he is now subject to annual election by shareholders. The transformed structure of the Group, and of the parent company Board, since 1996 have also ensured that the length of Mr Larson's service has no bearing on his independence.

Sir David Prosser was, until his retirement on 31 December 2005, Group Chief Executive of Legal & General Group Plc (L&G), a major shareholder in the Company. In the Board's view, Sir David Prosser met the criteria for independence as set out in the Combined Code, notwithstanding this role. 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. Sir David Prosser's appointment as a Board member was not linked in any way to L&G's share interest in the Company and he took no part in L&G's decision-making on specific investments.

Non-Executive Directors have the opportunity of continuing professional development during the year and of gaining further insight into the Group's business. During 2005, visits to operating

premises (including hotels across the brand portfolio) were undertaken. In addition, the training requirements of the Non-Executive Directors are kept under review.

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. He also has responsibility for developing the Group's position on Corporate Social Responsibility. 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. 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, until its flotation as an independent company in December 2005, the Britvic business. It 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.

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. During 2005, the other Committee members were Sir David Prosser, Ralph Kugler and, from 25 August 2005, Jennifer Laing. The Committee is scheduled to meet at least four times a year. The Committee met five times in the year. All Committee members attended every meeting. The Audit Committee's role is described on page 24.

Remuneration Committee The Remuneration Committee, chaired by Sir David Prosser, also comprises the following Non-Executive Directors: David Kappler, Robert C Larson, Jonathan Linen and Sir Howard Stringer. It meets at least three times a year. Its role is described on page 25. The Committee met six times during the year. Jonathan Linen was unable to attend one meeting and Sir Howard Stringer was unable to attend two meetings.

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 Jennifer Laing and Jonathan Linen. 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 twice during the year. Sir Howard Stringer was unable to attend these 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

Jennifer Laing and Jonathan Linen, having been appointed as Directors since the last Annual General Meeting, will retire and stand for election at the Annual General Meeting on 1 June 2006. In addition, Robert C Larson, having attained the age of 70, is now subject to annual retirement and re-election, if he wishes to continue to serve as a Director. Special notice has been duly given to the Company in connection with a resolution to propose his re-election to the Annual General Meeting.

The Association of British Insurers no longer recommends the annual retirement by rotation of a proportion of the Board of Directors, and the Company's Articles now provide that only those Directors who have not been subject to election by shareholders within the last three years, need retire and stand for re-election at the next Annual General Meeting. Therefore, no additional Directors are required to retire and stand for re-election at the Annual General Meeting in 2006.

However, in the spirit of good governance the Board has decided that shareholders should have the opportunity to vote on the appointment of one-third of the full Board, and therefore that an additional Director should voluntarily put himself forward for re-election in 2006. Stevan Porter will therefore retire and stand for re-election at the Annual General Meeting.

The Notice of Annual General Meeting, sent to shareholders with this Report, provides further information about the Directors standing for election and re-election. Details of the Executive Directors' service contracts are set out on page 28. The Non-Executive Chairman and the seven independent Non-Executive Directors have letters of appointment.

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.

THIRD-PARTY INDEMNITIES

The Group has provided to all of its Directors, limited indemnities in respect of costs of defending claims against them, and third-party liabilities. These are all qualifying third-party indemnity provisions for the purposes of the Companies Act 1985 and are all currently in force.

SHAREHOLDER RELATIONS

The Group 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. Telephone dial-in facilities and live audio webcasts enable access to these presentations for all shareholders. In addition, there are telephone conferences after the release of the first and third quarter results. The data used in these presentations and conferences is placed on the website www.ihgplc.com

IHG 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, Executive, 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.

Richard Winter
Company Secretary
1 March 2006

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 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 2005 are set out on page 22. 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 Committee of another UK public limited company.

The Committee's principal responsibilities are to:

- review the Group's public statements on internal control and corporate governance compliance prior to their consideration by the Board;
- review the Group's processes for detecting and addressing fraud, misconduct and control weaknesses and to consider the 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; and
- adopt and oversee a specific Code of Ethics for the senior financial officers, which is consistent with the Group's overall Guidelines for Proper Business Conduct.

The Committee discharges its responsibilities 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 Group management, after consideration of the major risks to the Group 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 Group management, at the conclusion of each meeting.

All proposals for the provision of non-audit services by the external auditor are pre-approved by the Audit Committee or its delegated member, the overriding consideration being to ensure that the provision of non-audit services does not impact the external auditor's independence and objectivity.

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

- quarterly, interim and full year financial results. These public financial statements are reviewed by the 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 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 quarterly, interim and full year reports;
- the effectiveness of the external auditor and consideration of their objectivity, independence and 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 and its compliance with professional standards;
- 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;
- any relevant correspondence with regulatory bodies on the subject of financial reporting or internal financial control; and
- consideration of the effectiveness of the Audit Committee.

David Kappler

Chairman of the Audit Committee

1 March 2006

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 2005 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:

Sir David Prosser – Chairman

David Kappler

Ralph Kugler until 6 May 2005

Robert C Larson*

Jonathan Linen from 1 December 2005

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. Sir Howard Stringer was unable to attend two meetings and Jonathan Linen was unable to attend one meeting.

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, Human Resources

David Webster – Chairman

Andrew Cosslett – 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, 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. Mr J Larson retired on 9 December 2005. His successor, Tracy Robbins, joined the Group on 12 December 2005. 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.

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.

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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 both the Short Term Incentive Plan and the Short Term Deferred Incentive Plan, challenging performance goals are set and these must be achieved before the maximum bonus becomes payable. The Short Term Incentive Plan is linked to personal objectives and the Short Term Deferred Incentive Plan is linked to the Group's financial performance. For Executive Directors, the maximum bonus opportunity under the Short Term Incentive Plan in 2006 is 80% of salary and is payable in cash. The maximum bonus opportunity under the Short Term Deferred Incentive Plan in 2006 is 100% of salary, with 50% linked to adjusted earnings per share and 50% to earnings before special items, interest and taxation. The performance level required to trigger maximum bonus is 110% of budget for both measures. This 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 at the end 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 Following a full review of incentive arrangements, the Committee has concluded that share options are not the most effective incentive for the foreseeable future and therefore no further grants of options will be made. However, 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.

For options granted in 2005, the Company's adjusted earnings per share over the three-year period ending 31 December 2007 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 4 April 2005 as shown in the table on page 32.

Executive share options are not pensionable.

Executive Directors are entitled to participate in all-employee share plans. 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 2005/07 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 cumulative annual growth (CAGR) in the number of rooms within the IHG system over the performance period relative to nine identified comparator companies: Carlson Hospitality Worldwide, Cendant, Choice, Hilton Group, Hilton Hotels Corp., Hyatt Hotels & Resorts, Marriott Hotels, Sol Melia and Starwood Hotels.

In respect of TSR performance, 10% of the award will be released for the achievement of sixth place within the TSR group and 50% of the award will be released for the achievement of first or second place. In respect of rooms CAGR performance, 10% of the award will be released for the achievement of median growth and 50% of the award will be released for the achievement of upper quartile growth. Vesting between all stated points will be on a straight line basis.

As indicated in last year's Remuneration Report, the asset disposal programme, which can significantly impact Return on Capital Employed (ROCE), will be complete during 2006. The Committee believes that a rooms' growth related performance measure is now the more appropriate measure going forward, effectively aligning an appropriate element of incentive pay with the Group's stated objective of increasing the number of rooms in the IHG system.

Benefits under the Performance Restricted Share Plan are not pensionable and the awards lapse if the performance conditions are not met.

During the year, IHG has remained within its headroom limits for the issue of new shares under share incentive schemes. Prior to the capital reorganisation of June 2005 and the consequent reduction in the Company's share capital, 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 4.58% 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 4.95%. 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.

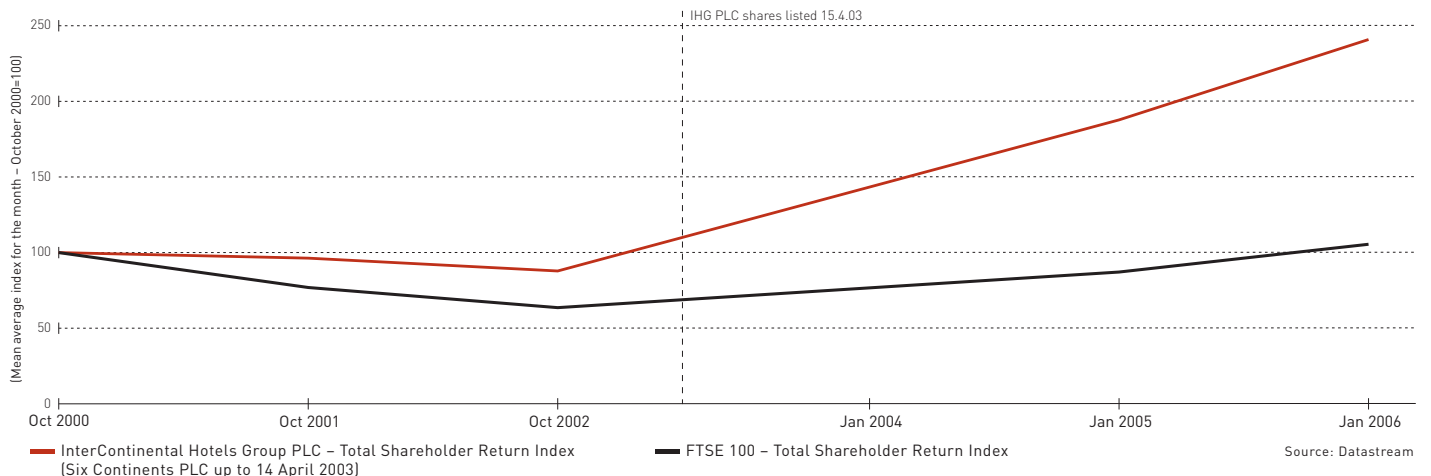
3.4 Policy on external appointments

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 Group'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. 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 TSR performance achieved by the FTSE 100 companies.

Total Shareholder Return: InterContinental Hotels Group v FTSE 100



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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.

Richard Hartman, Stevan Porter and Richard Solomons have service agreements with a notice period of 12 months. 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 of service. As at the date of this report, Andrew Cosslett's notice period is 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 ceased to act in his temporary capacity as interim Chief Executive following the appointment of Andrew Cosslett as Chief Executive on 3 February 2005. David Webster's appointment as Non-Executive Chairman, effective from 1 January 2004, is subject to six months' notice.

Non-Executive Directors, Ralph Kugler, Robert C Larson, Sir David Prosser and Sir Howard Stringer signed letters of appointment effective from the listing of IHG PLC in April 2003. These were renewed, effective from completion of the capital reorganisation of the Group and the listing of new IHG PLC shares on 27 June 2005. David Kappler signed a letter of appointment effective from his date of original appointment to the Board on 21 June 2004. This was also renewed, effective from 27 June 2005. Jennifer Laing and Jonathan Linen signed letters of appointment effective from their appointment dates, respectively 25 August 2005 and 1 December 2005.

All Non-Executive Directors' appointments, with the exception of the Chairman, are subject to three months' notice.

b) Directors' contracts

Directors	Contract effective date	Unexpired term/notice period
Andrew Cosslett	3.2.05	12 months
Richard Hartman	15.4.03	12 months
Stevan Porter	15.4.03	12 months
Richard Solomons	15.4.03	12 months

Note: each of the Executive Directors signed a letter of appointment, effective from completion of the capital reorganisation of the Group and the listing of new IHG PLC shares on 27 June 2005. The terms of each appointment were as set out in each Executive Director's original service agreement.

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. The latter is an unfunded arrangement. However, appropriate security is provided via a fixed charge on a hotel asset. 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.

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. In response to the new pension regime resulting from the Finance Act 2004 and applying from April 2006, these plans will be amended to continue to provide, tax efficiently, similar benefits in total, but with a different split of benefits between the two plans.

As an alternative to these arrangements, a cash allowance may be taken.

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

	Basic salaries and fees £000	Performance payments £000	Benefits £000	Total emoluments excluding pensions	
				1.1.05 to 31.12.05 £000	1.1.04 to 31.12.04 £000
4 DIRECTORS' EMOLUMENTS					
Executive Directors					
Andrew Cosslett ¹	642	–	21	663	–
Richard Hartman	496	–	302	798	775
Stevan Porter ²	402	–	27	429	368
Richard Solomons	406	–	17	423	400
Non-Executive Directors					
David Webster ³	519	–	3	522	424
David Kappler ⁴	80	–	–	80	35
Ralph Kugler ⁵	50	–	–	50	42
Jennifer Laing ⁵	18	–	–	18	–
Robert C Larson ⁵	50	–	–	50	42
Jonathan Linen ⁵	4	–	–	4	–
Sir David Prosser ⁶	65	–	–	65	50
Sir Howard Stringer ⁵	50	–	–	50	42
Former Directors⁷	488	413	16	917	1,249
Total	3,270	413	386	4,069	3,427

1 Andrew Cosslett joined the Group on 3 February 2005. The emoluments shown include a £53,737 cash payment made as part of his recruitment terms.

2 Emoluments for Stevan Porter include £41,140 that were chargeable to UK income tax and £19,088 reimbursement of interest and charges due to a payroll error.

3 Fees paid to David Webster represent £41,667 per month payable to him until 2 May 2005 in his capacity as interim Chief Executive and a fixed fee of £350,000 pa for his role as Non-Executive Chairman.

4 With effect from 1 January 2005, David Kappler is paid a total annual fee of £80,000, reflecting his roles as Senior Independent Director and Chairman of the Audit Committee.

5 With effect from 1 January 2005, an annual fee of £50,000 is payable to each of Ralph Kugler, Robert C Larson and Sir Howard Stringer. All fees due to Ralph Kugler are paid to Unilever. Jennifer Laing and Jonathan Linen are paid an annual fee of £50,000 each effective from their dates of appointment, respectively 25 August 2005 and 1 December 2005.

6 With effect from 1 January 2005, Sir David Prosser is paid a total annual fee of £65,000, reflecting his role as Chairman of the Remuneration Committee.

7 Richard North 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 for 2004 are for the full year. This includes his participation in the Short Term Deferred Incentive Plan which, in accordance with plan rules, had to be paid in cash due to his employment ending. He was eligible to participate in the Short Term Deferred Incentive Plan for the 2005 performance year. This award was made in cash and pro-rated to 30 September 2005. Richard North's severance arrangements also provided for him to receive a payment of one month's basic salary in each month up to September 2005. Sir Ian Prosser retired on 31 December 2003. However, he had an ongoing healthcare benefit of £840 during the year.

'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 31.

'Benefits' incorporate all tax assessable benefits arising from the individual's employment. For Messrs Cosslett, Hartman 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.

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5 LONG-TERM REWARD

PERFORMANCE RESTRICTED SHARE PLAN (PRSP)

In 2005, there were three cycles in operation and one cycle which vested.

The awards made in respect of the Performance Restricted Share Plan cycles ending on 31 December 2004, 31 December 2005, 31 December 2006 and 31 December 2007 and the maximum pre-tax number of ordinary shares due if performance targets are achieved in full are set out in the table below. In respect of the cycle ending on 31 December 2005, the Company finished in fifth place in the TSR group and achieved ROCE growth of 46%. Accordingly, 42.8% of the award will vest on 3 March 2006.

Directors	Maximum PRSP shares held at 1.1.05	Maximum PRSP shares awarded during the year 1.1.05 to 31.12.05	Award date	Market price per share at award	PRSP shares vested during the year 1.1.05 to 31.12.05	Market price per share at vesting	Value at vesting £	Actual/planned vesting date	Maximum PRSP shares held at 31.12.05	Maximum value based on share price of 839.5p at 31.12.05 £	Expected value based on share price of 839.5p at 31.12.05 £
Andrew Cosslett		68,216 ²	1.4.05	617.5p	–			3.3.06	68,216	572,674	245,105 ⁸
		136,432 ³	1.4.05	617.5p	–			9.3.07	136,432	1,145,347	
		276,200 ⁴	29.6.05	706p	–			7.3.08	276,200	2,318,699	
Total									480,848	4,036,720	
Richard Hartman	111,930 ¹		18.6.03	445p	67,158	660p	443,243	11.3.05	–		
	167,900 ²		18.6.03	445p	–			3.3.06	167,900	1,409,521	603,275 ⁸
	165,130 ³		24.6.04	549.5p	–			9.3.07	165,130	1,386,267	
		214,870 ⁴	29.6.05	706p	–			7.3.08	214,870	1,803,834	
Total									547,900	4,599,622	
Stevan Porter	113,810 ¹		18.6.03	445p	68,286	660p	450,688 ⁷	11.3.05	–		
	170,710 ²		18.6.03	445p	–			3.3.06	170,710	1,433,111	613,372 ⁸
	142,290 ³		24.6.04	549.5p	–			9.3.07	142,290	1,194,525	
		174,900 ⁴	29.6.05	706p	–			7.3.08	174,900	1,468,286	
Total									487,900	4,095,922	
Richard Solomons	110,110 ¹		18.6.03	445p	66,066	660p	436,036	11.3.05	–		
	165,160 ²		18.6.03	445p	–			3.3.06	165,160	1,386,519	593,431 ⁸
	144,990 ³		24.6.04	549.5p	–			9.3.07	144,990	1,217,192	
		176,550 ⁴	29.6.05	706p	–			7.3.08	176,550	1,482,138	
Total									486,700	4,085,849	
Former Directors											
Richard North	188,760 ¹		18.6.03	445p	113,256	660p	747,490	11.3.05	–		
	283,140 ^{2, 5}		18.6.03	445p	–			3.3.06	259,545 ⁴	2,178,881	932,562 ⁸
	248,560 ^{3, 5}		24.6.04	549.5p	–			9.3.07	144,993 ⁴	1,217,217	
Total									404,538	3,396,098	
Sir Ian Prosser	65,410 ^{1, 6}		18.6.03	445p	39,246	660p	259,024	11.3.05	–		
	65,410 ^{2, 6}		18.6.03	445p	–			3.3.06	65,410	549,117	235,023 ⁸
Total									65,410	549,117	
Total											20,763,328

1 This 'transitional' award was based on performance to 31 December 2004 where the performance measure related to the Company's Total Shareholder Return (TSR) against a group of 11 other comparator companies. The number of shares released was graded, according to where the Company finished 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 vested 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 TSR against a group of 11 other comparator companies and growth in return on capital employed (ROCE). The number of shares released is graded, according to a) where the Company finishes in the TSR comparator group, with 50% of the award being released for first or second position and 10% of the award being released for sixth place; and b) growth in ROCE, with 50% of the award being released for 80% growth and 10% of the award being released for 30% growth.

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

4 This award is based on performance to 31 December 2007 where the performance measure relates to both the Company's TSR against a group of 10 other comparator companies and cumulative annual growth of rooms in the IHG system against a group of nine other comparator companies.

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

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

7 The value of Stevan Porter's shares at vesting includes £43,190 that was chargeable to UK income tax.

8 The Company finished in fifth place in the TSR group and achieved ROCE growth of 46%. Accordingly, 42.8% of the award will vest on 3 March 2006.

SHORT TERM DEFERRED INCENTIVE PLAN (STDIP)

Messrs Cosslett, Hartman, Porter and Solomons participated in the STDIP during the year ended 31 December 2005, and are expected to receive an award on 8 March 2006.

Directors' pre-tax interests during the year were:

Directors	STDIP shares held at 1.1.05	STDIP shares awarded during the year 1.1.05 to 31.12.05	Award date	Market price per share at award	STDIP shares vested during the year 1.1.05 to 31.12.05	Vesting date	Market price per share at vesting	Value at vesting £	STDIP shares held at 31.12.05	Planned vesting date	Value based on share price of 839.5p at 31.12.05 £
Andrew Cosslett		79,832 ¹	1.4.05	617.5p	–				39,916	1.4.06	335,095
									39,916	1.4.07	335,095
Total									79,832		670,190
Richard Hartman		88,341 ²	16.3.05	654p	–				29,447	16.3.06	247,208
									29,447	16.3.07	247,208
									29,447	16.3.08	247,208
Total									88,341		741,624
Stevan Porter		80,934 ³	16.3.05	654p	–				26,978	16.3.06	226,481
									26,978	16.3.07	226,481
									26,978	16.3.08	226,481
Total									80,934		679,443
Richard Solomons		87,061 ⁴	16.3.05	654p	–				29,020	16.3.06	243,623
									29,020	16.3.07	243,623
									29,021	16.3.08	243,632
Total									87,061		730,878

1 This special award was made to Andrew Cosslett as part of his overall recruitment terms. The shares will vest in equal portions on the first and second anniversary of the award date, subject to his continued employment until that time.

2 This award was based on financial year 2004 performance and the bonus target was 50% of base salary. Richard Hartman was awarded 70% (maximum) of his bonus target for earnings per share (EPS) performance, 49% of his bonus target for EMEA earnings before interest and tax (EBIT) performance and 45% of his bonus target for his personal performance. Richard Hartman's total bonus was therefore 164% of his bonus target. One matching share was awarded for every two bonus shares earned.

3 This award was based on financial year 2004 performance and the bonus target was 50% of base salary. Stevan Porter was awarded 70% (maximum) of his bonus target for EPS performance, 70% (maximum) of his bonus target for the Americas EBIT performance and 60% (maximum) of his bonus target for his personal performance. Stevan Porter's total bonus was therefore 200% (maximum) of his bonus target. One matching share was awarded for every two bonus shares earned.

4 This award was based on financial year 2004 performance and the bonus target was 50% of base salary. Richard Solomons was awarded 70% (maximum) of his bonus target for EPS performance, 70% (maximum) of his bonus target for Group EBIT performance and 60% (maximum) of his bonus target for his personal performance. Richard Solomons' total bonus was therefore 200% (maximum) of his bonus target. One matching share was awarded for every two bonus shares earned.

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SHARE OPTIONS

	Ordinary shares under option					Weighted average option price (p)	Option price (p)
	Options held at 1.1.05 or date of appointment	Granted during the year	Lapsed during the year	Exercised during the year	Options held at 31.12.05		
Directors							
Andrew Cosslett		157,300					619.83
b					157,300		
Total		157,300	-	-	157,300	619.83	
Richard Hartman	834,022					435.70	
		118,810					619.83
a					364,388	398.99	
b					588,444	495.61	
Total	834,022	118,810	-	-	952,832	458.66	
Stevan Porter	658,319					449.47	
		96,370					619.83
				178,176			409.36
b					576,513	490.34	
Total	658,319	96,370	-	178,176	576,513	490.34	
Richard Solomons	831,360					426.49	
		100,550					619.83
				357,545		375.24	
b					574,365	492.24	
Total	831,360	100,550	-	357,545	574,365	492.24	

a Where the options are exercisable and the market price per share at 31 December 2005 was above the option price; and

b Where options are not yet exercisable. A performance condition has to be met before these options can be exercised.

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 and 2004 are exercisable between May 2006 and April 2014, 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 4 April 2005 at an option price of 619.83p. These options are exercisable between April 2008 and April 2015, subject to the achievement of the performance condition.

Option prices range from 308.48p to 619.83p per IHG PLC share. The closing market value share price on 30 December 2005 was 839.50p and the range during the year was 634.98p to 839.50p per share.

The gain on exercise by Directors in aggregate was £1,658,109 in the year ended 31 December 2005 (nil in the year ended 31 December 2004). The market value share prices on the exercise of options by Stevan Porter and Richard Solomons were 728p per share and 720.50p per share respectively.

6 DIRECTORS' SHAREHOLDINGS

	31 December 2005 InterContinental Hotels Group PLC ordinary shares of 10p ⁴	1 January 2005 ¹ InterContinental Hotels Group PLC ordinary shares of 112p ^{2,4}
Executive Directors		
Andrew Cosslett	7,332	-
Richard Hartman	70,117	45,247
Stevan Porter	64,589	88,077
Richard Solomons	60,339	16,031
Non-Executive Directors		
David Kappler	1,908	2,602
Ralph Kugler	654	892
Jennifer Laing	-	-
Robert C Larson	7,857 ³	10,714 ³
Jonathan Linen	-	-
Sir David Prosser	3,273	4,464
Sir Howard Stringer	5,548	7,566
David Webster	31,823	13,395

1 Or date of appointment, if later.

2 These share interests were in InterContinental Hotels Group PLC 112p ordinary shares prior to the capital reorganisation effective from 27 June 2005.

For every 15 existing InterContinental Hotels Group PLC shares held on 24 June 2005, shareholders received 11 new ordinary shares of 10p each and £24.75 in cash.

3 Held in the form of American Depositary Receipts.

4 These shareholdings are all beneficial interests and include shares held by Directors' spouses and other connected persons. None of the Directors has a beneficial interest in the shares of any subsidiary.

At 31 December 2005, the Executive Directors of the Company, as potential beneficiaries under the Company's Employee Benefit Trust (the Trust), were each technically deemed to be interested in 2,940,245 unallocated IHG PLC shares held by the Trust. In the period from 31 December 2005 to 1 March 2006, a further 511,833 shares were released from the Trust, reducing the number of shares in which these Directors hold a residual interest to 2,428,412 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.

7 DIRECTORS' PENSIONS

The following information relates to the pension arrangements provided for Messrs Cosslett, Hartman and 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.

Richard Hartman, who reached the IC Plan normal pension age of 60 on 30 January 2006, ceased to be an active member of the IC Plan and ICETUS with effect from that date, and in future will participate in the InterContinental Hotels Group International Savings and Retirement Plan.

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 2005	Directors' contributions in the year (note 1) £	Transfer value of accrued benefits		Increases in transfer value over the year, less Directors' contributions £	Increase in accrued pension (note 2) £ pa	Increase in accrued pension (note 3) £ pa	Accrued pension at 31 Dec 2005 (note 4) £ pa
			1 Jan 2005 £	31 Dec 2005 £				
Andrew Cosslett	50	14,400	Nil	266,900	252,500	19,700	19,700	19,700
Richard Hartman	59	15,700	1,189,800	1,848,200	642,700	23,400	21,500	86,600
Richard Solomons	44	15,700	834,100	1,227,100	377,300	22,500	19,600	119,300

note 1: Contributions paid in the year by the Directors under the terms of the plans.

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 2005.

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		Company contribution to	
	DCP £	401(k) £	DCP £	401(k) £
Stevan Porter	20,300	5,800	59,400	4,700

By order of the Board

Richard Winter
Company Secretary
1 March 2006

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GROUP INCOME STATEMENT

	note	2005			2004		
		Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
for the year ended 31 December 2005							
Revenue	2	852	1,058	1,910	731	1,473	2,204
Cost of sales		(442)	(775)	(1,217)	(398)	(1,079)	(1,477)
Administrative expenses		(150)	(74)	(224)	(140)	(68)	(208)
		260	209	469	193	326	519
Depreciation and amortisation	2	(70)	(60)	(130)	(59)	(114)	(173)
Other operating income and expenses	5	(22)	–	(22)	(49)	–	(49)
Operating profit	2	168	149	317	85	212	297
Financial income	6	30	–	30	70	–	70
Financial expenses	6	(54)	(9)	(63)	(103)	–	(103)
Profit before tax		144	140	284	52	212	264
Tax	7	(28)	(52)	(80)	194	(67)	127
Profit after tax		116	88	204	246	145	391
Gain on disposal of assets, net of tax charge of £38m (2004 credit of £4m)		–	311	311	–	19	19
Profit available for shareholders		116	399	515	246	164	410
Attributable to:							
Equity holders of the parent		116	380	496	246	137	383
Minority equity interest		–	19	19	–	27	27
Profit for the year		116	399	515	246	164	410
Earnings per ordinary share:	9						
Basic		22.3p	72.9p	95.2p	34.6p	19.3p	53.9p
Diluted		21.8p	71.3p	93.1p	34.3p	19.0p	53.3p
Adjusted		24.9p		38.2p	17.3p		33.9p

Notes on pages 38 to 75 form an integral part of these financial statements.

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

	2005 £m	2004 £m
<i>for the year ended 31 December 2005</i>		
Income and expense recognised directly in equity		
Gains on valuation of available-for-sale assets	31	-
Gains on cash flow hedges	1	-
Exchange differences on retranslation of foreign operations	29	(12)
Actuarial losses on defined benefit pension plans	(23)	(51)
Deficit transferred in respect of previous acquisition	-	(6)
	38	(69)
Transfers to the income statement		
On cash flow hedges	(6)	-
On disposal of foreign operations	2	-
Tax on items taken directly to or transferred from equity	7	14
Net income/(expense) recognised directly in equity	41	(55)
Profit for the year	515	410
Total recognised income and expense for the year	556	355
Attributable to:		
Equity holders of the parent	541	338
Minority equity interest	15	17
	556	355
Effects of changes in accounting policy		
Losses on valuation of available-for-sale assets	(10)	-
Gains on cash flow hedges	6	-
	(4)	-

Notes on pages 38 to 75 form an integral part of these financial statements.

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GROUP CASH FLOW STATEMENT

	2005 £m	2004 £m
for the year ended 31 December 2005		
Profit for the year	515	410
Adjustments for:		
Net financial expenses	33	33
Income tax charge/(credit)	80	(127)
Gain on disposal of assets, net of tax	(311)	(19)
Other operating income and expenses	22	49
Depreciation and amortisation	130	173
Equity settled share-based cost, net of payments	12	12
Other gains and losses	-	4
Operating cash flow before movements in working capital	481	535
Decrease in inventories	-	1
Increase in receivables	-	(13)
(Decrease)/increase in provisions and other payables	(32)	50
Decrease in employee benefit obligation	(26)	(58)
Cash flow from operations	423	515
Interest paid	(59)	(91)
Interest received	29	72
Tax paid	(91)	(35)
Net cash from operating activities	302	461
Cash flow from investing activities		
Purchases of property, plant and equipment – Hotels	(121)	(175)
Purchases of associates and other financial assets – Hotels	(15)	(12)
Disposal of assets, net of cash disposed of – Hotels	1,816	101
Proceeds from other financial assets – Hotels	10	5
Purchases of property, plant and equipment – Soft Drinks	(47)	(70)
Disposal of business, net of cash disposed of – Soft Drinks	220	-
Net cash from investing activities	1,863	(151)
Cash flow from financing activities		
Proceeds from the issue of share capital	10	16
Purchase of own shares	(207)	(257)
Payment to shareholders as a result of the capital reorganisation on 27 June 2005	(996)	-
Purchase of own shares by employee share trusts	(29)	(33)
Proceeds on release of own shares by employee share trusts	16	16
Dividends paid to shareholders	(81)	(600)
Dividends paid to minority interests	(177)	(26)
(Decrease)/increase in borrowings	(442)	258
Costs associated with new facilities	-	(5)
Financial expense on early settlement of debt	-	(17)
Net cash from financing activities	(1,906)	(648)
Net movement in cash and cash equivalents in the year	259	(338)
Cash and cash equivalents at beginning of the year	72	411
Exchange rate effects	(7)	(1)
Cash and cash equivalents at end of the year	324	72

Notes on pages 38 to 75 form an integral part of these financial statements.

GROUP BALANCE SHEET

31 December 2005	note	2005 £m	2004 £m
ASSETS			
Property, plant and equipment	10	1,356	1,926
Goodwill	12	118	152
Intangible assets	13	120	54
Investment in associates	14	42	42
Other financial assets	15	113	80
Total non-current assets		1,749	2,254
Inventories	16	3	42
Trade and other receivables	17	252	390
Current tax receivable		22	14
Cash and cash equivalents	18	324	72
Other financial assets	15	106	80
Total current assets		707	598
Non-current assets classified as held for sale	11	279	1,826
Total assets		2,735	4,678
LIABILITIES			
Loans and other borrowings	20	(2)	(32)
Trade and other payables	19	(468)	(633)
Current tax payable		(324)	(261)
Total current liabilities		(794)	(926)
Loans and other borrowings	20	(410)	(1,156)
Employee benefits	23	(76)	(173)
Provisions and other payables	19	(107)	(103)
Deferred tax payable	26	(210)	(234)
Total non-current liabilities		(803)	(1,666)
Liabilities classified as held for sale	11	(34)	(148)
Total liabilities		(1,631)	(2,740)
Net assets		1,104	1,938
EQUITY			
Equity share capital	28	49	723
Capital redemption reserve	28	1	46
Shares held by employee share trusts	28	(22)	(22)
Other reserves	28	(1,528)	1,462
Unrealised gains and losses reserve	28	23	-
Currency translation reserve	28	19	(12)
Retained earnings	28	2,542	(376)
IHG shareholders' equity		1,084	1,821
Minority equity interest		20	117
Total equity		1,104	1,938

Signed on behalf of the Board

Richard Solomons
1 March 2006

Notes on pages 38 to 75 form an integral part of these financial statements.

corporate information and accounting policies

Corporate information

The consolidated financial statements of InterContinental Hotels Group PLC (IHG) for the year ended 31 December 2005 were authorised for issue in accordance with a resolution of the Directors on 1 March 2006. InterContinental Hotels Group PLC (the Company) is incorporated in Great Britain and registered in England and Wales.

Summary of significant accounting policies

BASIS OF PREPARATION

The financial statements have been prepared on an historic cost basis, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value. The consolidated financial statements are presented in sterling and all values are rounded to the nearest million (£m) except where otherwise indicated.

STATEMENT OF COMPLIANCE

The consolidated financial statements of IHG have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and as applied in accordance with the provisions of the Companies Act 1985. As permitted, the Group has also early adopted the amendment to International Accounting Standard (IAS) 19 'Employee Benefits' published in December 2004.

IFRS EXEMPTIONS

IFRS 1 'First-time Adoption of International Financial Reporting Standards' has been applied in preparing this financial information. The Group has taken the following exemptions available under IFRS 1:

- a) Not to restate the comparative information disclosed in the 2005 financial statements in accordance with IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement'.
- b) Not to restate business combinations before 1 January 2004.
- c) To recognise all actuarial gains and losses on pensions and other post-employment benefits directly in equity at 1 January 2004.
- d) To retain UK GAAP carrying values of property, plant and equipment, including revaluations, as deemed cost at transition.
- e) Not to recognise separately cumulative foreign exchange movements up to 1 January 2004.
- f) To apply IFRS 2 'Share-based Payments' to grants of equity instruments after 7 November 2002 that had not vested at 1 January 2005.

The disclosures required by IFRS 1 are given in note 33.

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

BASIS OF CONSOLIDATION

The Group financial statements comprise the financial statements of the parent company and entities controlled by the Company. All inter-company balances and transactions have been eliminated.

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

Shareholder approval was given on 1 June 2005 to recommended proposals for the return of approximately £1bn to shareholders by way of a capital reorganisation (by means of a scheme of arrangement under Section 425 of the Companies Act 1985). Under the arrangement, shareholders received 11 new ordinary shares and £24.75 cash in exchange for every 15 existing ordinary shares held on 24 June 2005. The overall effect of the transaction was that of a share repurchase at fair value, therefore no adjustment has been made to comparative earnings per share data (see note 9).

The capital reorganisation of InterContinental Hotels Group PLC to New InterContinental Hotels Group PLC has been accounted for in accordance with the principles of merger accounting as applicable to group reorganisations. The consolidated financial statements are therefore presented as if New InterContinental Hotels Group PLC had been the parent company of the Group throughout the periods presented. Following this capital reorganisation, InterContinental Hotels Group PLC changed its name to InterContinental Hotels PLC and re-registered as a private limited company, InterContinental Hotels Limited; New InterContinental Hotels Group PLC changed its name to InterContinental Hotels Group PLC.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated to the functional currency at the exchange rates ruling on the dates of the transactions. All foreign exchange differences arising on translation are recognised in the income statement except on foreign currency borrowings that provide a hedge against a net investment in a foreign operation. These are taken directly to the currency translation reserve until the disposal of the net investment, at which time they are recycled against the gain or loss on disposal.

The assets and liabilities of foreign operations, including goodwill, are translated into sterling at the relevant rates of exchange ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into sterling at weighted average rates of exchange for the period. The exchange differences arising on the retranslation are taken directly to the currency translation reserve. On disposal of a foreign operation, the cumulative amount recognised in the currency translation reserve relating to that particular foreign operation is recycled against the gain or loss on disposal.

FINANCIAL INSTRUMENTS

The Group adopted IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' at 1 January 2005. The balance sheet has been restated to include derivatives and equity securities at fair value, with any movement taken to the appropriate reserve.

Under the transitional rules of IFRS 1, IAS 32 and IAS 39 are not applied to comparative balances. Comparative 2004 balances are presented using UK GAAP values as presented in the Group's 2004 Annual Report and Financial Statements, where currency swap agreements were retranslated at exchange rates ruling at the balance sheet date with the net amount being included in borrowings. Financial income or expense arising from currency swap agreements is taken to the income statement on a gross basis over the term of the relevant agreements.

Gains or losses arising on forward exchange contracts are taken to the income statement in line with the transactions they are hedging.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

Derivatives designated as hedging instruments are accounted for in line with the nature of the hedging arrangement. The Group's detailed accounting policies with respect to hedging instruments are set out in note 21. Documentation outlining the measurement and effectiveness of the hedging arrangement is maintained throughout the life of the hedge relationship. Any ineffective element of a hedge arrangement is recognised in the income statement.

The fair value of derivatives is calculated by discounting the expected future cash flows at prevailing interest rates.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less depreciation and any impairment.

Borrowing costs are not capitalised. Repairs and maintenance costs are expensed as incurred.

Land is not depreciated. All other property, plant and equipment are depreciated to a residual value over their estimated useful lives, namely:

- Buildings – lesser of 50 years and unexpired term of lease;
- Fixtures, fittings and equipment – 3 to 25 years; and
- Plant and machinery – 4 to 20 years.

All depreciation and amortisation is charged on a straight line basis. Residual value is reassessed annually.

Property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Assets that do not generate independent cash flows are combined into cash-generating units. If carrying values exceed estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. Recoverable amount is the greater of fair value less cost to sell and value in use. Value in use is assessed based on estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

GOODWILL

Goodwill arises on consolidation and is recorded at cost, being the excess of the cost of acquisition over the fair value at the date of acquisition of the Group's share of identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment at least annually by comparing carrying values with recoverable amounts.

INTANGIBLE ASSETS

Software Acquired software licences and software developed in-house are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three to seven years.

Management contracts When assets are sold and a purchaser enters into a management or franchise contract with the Group, the Group capitalises as part of the gain or loss on disposal an estimate of the fair value of the contract entered into. This value is amortised over the life of the contract which ranges from 10 to 25 years.

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 expensed unless forecast revenues exceed attributable forecast development costs, at which time they are capitalised and amortised over the life of the product.

Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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 Assets Held for Sale overleaf). Using the equity method, the Group's investment is recorded at cost adjusted by the Group's share of post acquisition profits and losses. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to £nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

FINANCIAL ASSETS

Under IAS 39 current and non-current financial assets are classified as fair value through profit or loss; loans and receivables; held-to-maturity investments; or as available-for-sale. The Group determines the classification of its financial assets at initial recognition and are subsequently held at fair value or amortised cost. Changes in fair values of available-for-sale financial assets are recorded directly in the unrealised gains and losses reserve. Changes in fair values of financial assets classified as fair value through profit or loss are recorded in the income statement.

corporate information and accounting policies

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

Available-for-sale financial assets are tested for impairment at each balance sheet date. If impaired, the difference between carrying value and fair value is transferred from equity to the income statement to the extent that there is sufficient surplus in equity; any excess goes directly to the income statement.

INVENTORIES

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

TRADE RECEIVABLES

Trade receivables are recorded at their original amount less an allowance for any doubtful amounts. An allowance is made when collection of the full amount is no longer considered probable.

CASH AND CASH EQUIVALENTS

Cash comprises cash in hand and demand deposits.

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

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 sales value less cost to sell.

Depreciation is not charged against property, plant and equipment classified as held for sale.

The Group has taken advantage of the transitional provisions of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' and applied the standard for the period beginning 1 January 2004.

TRADE PAYABLES

Trade payables are non interest bearing and are stated at their nominal value.

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 the points at a later date for free accommodation or other benefits. The future redemption liability is included in trade and other payables and provisions and other payables and is estimated using actuarial methods to give eventual redemption rates and points values.

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.

PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that a payment will be made and a reliable estimate of the amount can be made. If the effect of the time value of money is material, the provision is discounted.

BANK AND OTHER BORROWINGS

Bank and other borrowings are held at amortised cost. Finance charges, including issue costs, are charged to the income statement using an effective interest rate method.

Borrowings are classified as non-current when the repayment date is more than 12 months from the balance sheet date or where they are drawn on a facility with more than 12 months to expiry.

PENSIONS

Defined contribution plans Payments to defined contribution schemes are charged to the income statement as they fall due.

Defined benefit plans Plan assets are measured at fair value and plan liabilities are measured on an actuarial basis, using the projected unit credit method and discounting at an interest rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the plan liabilities.

The service cost of providing pension benefits to employees for the year is charged to the income statement. The cost of making improvements to pensions is recognised in the income statement on a straight line basis over the period during which any increase in benefits vests. To the extent that improvements in benefits vest immediately, the cost is recognised immediately as an expense.

Actuarial gains and losses may result from: differences between the expected return and the actual return on plan assets; differences between the actuarial assumptions underlying the plan liabilities and actual experience during the year; or changes in the actuarial assumptions used in the valuation of the plan liabilities. Actuarial gains and losses, and taxation thereon, are recognised in the Group statement of recognised income and expense.

Actuarial valuations are normally carried out every three years.

DEFERRED TAX

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, based on rates enacted or substantively enacted at the balance sheet date.

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 – primarily derived from hotel operations, including the rental of rooms and food and beverage sales from a worldwide network of owned and leased hotels operated under the Group's brand names. Revenue is recognised when rooms are occupied and food and beverages are 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 hotels' profitability or cash flows. Revenue is recognised when earned and realised or realisable under the terms of the contract.

Franchise fees – received in connection with the license 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 and realised or realisable.

SHARE-BASED PAYMENTS

The cost of equity-settled transactions with employees is measured by reference to fair value at the date at which the shares are granted. Fair value is determined by an external valuer using option pricing models.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which any performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date).

The income statement charge for a period represents the movement in cumulative expense recognised at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The Group has taken advantage of the transitional provisions of IFRS 2 in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2005.

LEASES

Operating lease rentals are charged to the income statement on a straight line basis over the term of the lease.

DISPOSAL OF ASSETS

The Group recognises the sales proceeds and related profit or loss on disposal on completion of the sales process. The Group considers the following criteria in determining whether revenue and profit or loss should be recorded:

- does the Group have a continuing managerial involvement to the degree associated with asset ownership;
- has the Group transferred the significant risks and rewards associated with asset ownership;
- can the Group reliably measure the proceeds; and
- will the Group actually receive the proceeds.

DISCONTINUED OPERATIONS

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, geographical area of operations, or where there is a co-ordinated plan to dispose of a separate line of business or geographical area of operations.

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.

On an ongoing basis, management evaluates its estimates and judgements, including those relating to revenue recognition, allowance for doubtful amounts, associates and financial assets, property, plant and equipment, goodwill, intangible assets, income taxes, financial instruments, hotel loyalty programme, self-insurance, employee benefits and contingencies and litigation.

Management bases its estimates and judgements on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying value of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions and conditions.

NEW STANDARDS AND INTERPRETATIONS

During the year, the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) issued the following standards and interpretations with an effective date after the date of these financial statements. These standards and interpretations which are relevant to the Group have not been applied in the preparation of the Group's financial statements:

- IFRS 7 Financial Instruments: Disclosures
Effective from 1 January 2007
- IFRIC 4 Determining whether an arrangement contains a lease
Effective from 1 January 2006

The Group does not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements on adoption.

notes to the financial statements

1 EXCHANGE RATES

The results of foreign 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=\$1.83 (2004 £1=\$1.82). In the case of the euro, the translation rate is £1=€1.46 (2004 £1=€1.47).

Foreign currency denominated assets and liabilities have been translated into sterling at the rates of exchange on the balance sheet date. In the case of the US dollar, the translation rate is £1=\$1.73 (2004 £1=\$1.93). In the case of the euro, the translation rate is £1=€1.46 (2004 £1=€1.41).

2 SEGMENTAL INFORMATION

Hotels

The primary segmental reporting format is determined to be three main geographical regions:

the Americas;

Europe, the Middle East and Africa (EMEA); and

Asia Pacific.

These, together with Central functions, form the principal format by which management is organised and makes operational decisions.

The Group further breaks each geographic region into three distinct business models which offer different growth, return, risk and reward opportunities:

Franchised Where Group companies neither own nor manage the hotel, but license the use of a Group brand and provide access to reservation systems, loyalty schemes, and know-how. The Group derives revenues from a brand royalty or licensing fee, based on a percentage of room revenue.

Managed Where, in addition to licensing the use of a Group brand, a Group company manages the hotel for third party owners. The Group derives revenues from base and incentive management fees and provides the system infrastructure necessary for the hotel to operate. Management contract fees are generally a percentage of hotel revenue and may have an additional incentive fee linked to profitability or cash flow. The terms of these agreements vary, but are often long-term (for example, 10 years or more). The Group's responsibilities under the management agreement typically include hiring, training and supervising the managers and employees that operate the hotels under the relevant brand standards. In order to gain access to central reservation systems, global and regional brand marketing and brand standards and procedures, owners are typically required to make a further contribution.

Owned and leased Where a Group company both owns (or leases) and operates the hotel and, in the case of ownership, takes all the benefits and risks associated with ownership. The Group has sold, or plans to sell, the majority of its owned and leased portfolio and in future expects to only own hotels where it is considered strategically important to do so.

Segmental results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Soft Drinks

Manufactures a variety of soft drink brands with distribution concentrated mainly in the UK.

2 SEGMENTAL INFORMATION (CONTINUED)

Year ended 31 December 2005*

	Americas £m	EMEA £m	Asia Pacific £m	Central £m	Total Hotels £m	
Revenue						
Hotels						
Owned and leased	122	236	56	–	414	
Managed	65	55	25	–	145	
Franchised	213	35	3	–	251	
Central	–	–	–	42	42	
Continuing operations	400	326	84	42	852	
Discontinued operations – owned and leased	45	285	57	–	387	
	445	611	141	42	1,239	
				Continuing £m	Discontinued £m	Group £m
Group						
Hotels			852	387	1,239	
Soft Drinks			–	671	671	
Total revenue			852	1,058	1,910	
Segmental result						
Hotels						
Owned and leased	15	11	11	–	37	
Managed	20	31	16	–	67	
Franchised	186	26	2	–	214	
Regional and central	(34)	(21)	(8)	(65)	(128)	
Continuing operations	187	47	21	(65)	190	
Discontinued operations – owned and leased	11	57	11	–	79	
	198	104	32	(65)	269	
				Continuing £m	Discontinued £m	Group £m
Group						
Hotels			190	79	269	
Soft Drinks			–	70	70	
			190	149	339	
Unallocated expenses:						
Other operating income and expenses			(22)	–	(22)	
Operating profit			168	149	317	
Net finance costs			(24)	(9)	(33)	
Profit before tax			144	140	284	
Tax			(28)	(52)	(80)	
Profit after tax			116	88	204	
Gain on disposal of assets, net of tax			–	311	311	
Profit available for shareholders			116	399	515	

* Other than for Soft Drinks which reflects the 50 weeks and three days ended 14 December.

notes to the financial statements

2 SEGMENTAL INFORMATION (CONTINUED)

Year ended 31 December 2005*

	Americas £m	EMEA £m	Asia Pacific £m	Central £m	Total Hotels £m	Soft Drinks £m	Total Group £m
Assets and liabilities							
Segment assets	689	987	346	88	2,110	–	2,110
Non-current assets classified as held for sale	21	258	–	–	279	–	279
	710	1,245	346	88	2,389	–	2,389
Unallocated assets:							
Current tax receivable					22	–	22
Cash and cash equivalents					324	–	324
Total assets					2,735	–	2,735
Segment liabilities	340	261	50	–	651	–	651
Liabilities classified as held for sale	1	33	–	–	34	–	34
	341	294	50	–	685	–	685
Unallocated liabilities:							
Current tax payable					324	–	324
Deferred tax payable					210	–	210
Loans and other borrowings					412	–	412
Total liabilities					1,631	–	1,631
Other segment information							
Continuing operations:							
Capital expenditure	24	27	28	13	92	–	92
Depreciation and amortisation ^a	19	28	8	15	70	–	70
Impairment of property, plant and equipment	–	7	–	–	7	–	7
Discontinued operations:							
Capital expenditure	4	36	4	–	44	47	91
Depreciation and amortisation ^a	1	11	3	–	15	45	60

* Other than for Soft Drinks which reflects the 50 weeks and three days ended 14 December.

a Included in the £130m of depreciation and amortisation is £23m that relates to administrative expenses.

2 SEGMENTAL INFORMATION (CONTINUED)

Year ended 31 December 2004*

Revenue	Americas £m	EMEA £m	Asia Pacific £m	Central £m	Total Hotels £m	
Hotels						
Owned and leased	93	231	47	–	371	
Managed	30	43	21	–	94	
Franchised	196	27	3	–	226	
Central	–	–	–	40	40	
Continuing operations	319	301	71	40	731	
Discontinued operations – owned and leased	176	528	63	–	767	
	495	829	134	40	1,498	
				Continuing £m	Discontinued £m	Group £m
Group						
Hotels			731	767	1,498	
Soft Drinks			–	706	706	
Total revenue			731	1,473	2,204	
Segmental result	Americas £m	EMEA £m	Asia Pacific £m	Central £m	Total Hotels £m	
Hotels						
Owned and leased	4	2	9	–	15	
Managed	6	24	14	–	44	
Franchised	167	21	2	–	190	
Regional and central	(27)	(23)	(8)	(57)	(115)	
Continuing operations	150	24	17	(57)	134	
Discontinued operations – owned and leased	23	105	7	–	135	
	173	129	24	(57)	269	
				Continuing £m	Discontinued £m	Group £m
Group						
Hotels			134	135	269	
Soft Drinks			–	77	77	
			134	212	346	
Unallocated expenses:						
Other operating income and expenses			(49)	–	(49)	
Operating profit			85	212	297	
Net finance costs			(33)	–	(33)	
Profit before tax			52	212	264	
Tax			194	(67)	127	
Profit after tax			246	145	391	
Gain on disposal of assets, net of tax			–	19	19	
Profit available for shareholders			246	164	410	

* Other than for Soft Drinks which reflects the 53 weeks ended 25 December.

notes to the financial statements

2 SEGMENTAL INFORMATION (CONTINUED)

Year ended 31 December 2004*

	Americas £m	EMEA £m	Asia Pacific £m	Central £m	Total Hotels £m	Soft Drinks £m	Total Group £m
Assets and liabilities							
Segment assets	583	1,202	437	86	2,308	458	2,766
Non-current assets classified as held for sale	424	1,402	–	–	1,826	–	1,826
	1,007	2,604	437	86	4,134	458	4,592
Unallocated assets:							
Current tax receivable					14	–	14
Cash and cash equivalents					60	12	72
Total assets					4,208	470	4,678
Segment liabilities	300	290	28	–	618	291	909
Liabilities classified as held for sale	24	124	–	–	148	–	148
	324	414	28	–	766	291	1,057
Unallocated liabilities:							
Current tax payable					248	13	261
Deferred tax payable					246	(12)	234
Loans and other borrowings					1,185	3	1,188
Total liabilities					2,445	295	2,740
Other segment information							
Continuing operations:							
Capital expenditure	45	37	15	12	109	–	109
Depreciation and amortisation ^a	12	26	6	15	59	–	59
Impairment of property, plant and equipment	14	30	4	–	48	–	48
Discontinued operations:							
Capital expenditure	15	58	5	–	78	70	148
Depreciation and amortisation ^a	17	44	7	–	68	46	114

* Other than for Soft Drinks which reflects the 53 weeks ended 25 December.

a Included in the £173m of depreciation and amortisation is £23m that relates to administrative expenses.

3 STAFF COSTS AND DIRECTORS' EMOLUMENTS

	2005 £m	2004 £m
Staff		
Costs:		
Wages and salaries	465	570
Social security costs	61	66
Pension costs (see note 23)	19	21
Other plans	15	12
	560	669
	2005	2004
Average number of employees, including part-time employees:		
Hotels	18,995	26,835
Soft Drinks	2,991	2,824
	21,986	29,659
	2005	2004
Directors' emoluments		
Basic salaries, fees, performance payments and benefits*	4.1	3.4
Long-term reward	0.4	0.6
Gains on exercise of share options	1.7	–

More detailed information on the emoluments, pensions, option holdings and shareholdings for each Director is shown in the Remuneration Report on pages 25 to 33.

* Includes long-term reward.

4 AUDITORS' REMUNERATION PAID TO ERNST & YOUNG LLP

	2005 £m	2004 £m
Audit fees	3.9	3.8
Audit related fees	2.7	1.6
Tax fees	0.6	0.5
	7.2	5.9

Non-audit fees payable for UK services were £2.1m (2004 £1.1m).

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.

notes to the financial statements

	note	2005 £m	2004 £m
5 SPECIAL ITEMS			
Other operating income and expenses			
Impairment of property, plant and equipment	a	(7)	(48)
Restructuring costs	b	(13)	(11)
Property damage	c	(9)	–
Employee benefits curtailment gain	d	7	–
Reversal of previously recorded provisions	e	–	20
Provision for investment in associates	f	–	(16)
Provision for investment in other financial assets		–	(2)
Write back of provision for investment in other financial assets		–	8
		(22)	(49)
Financing			
Financial income	g	–	22
Financial expenses	h	–	(16)
Financial expense on early settlement of debt	i	–	(17)
		–	(11)
Tax			
Tax credit on above items		–	22
Special tax credit	j	8	161
		8	183
Gain on disposal of assets			
Gain on disposal of assets		349	15
Tax (charge)/credit		(38)	4
		311	19

The above items are treated as special by reason of their size or incidence (see note 9).

a Property, plant and equipment were written down by £7m (2004 £48m) following an impairment review of the hotel estate.

b Restructuring costs relate to the delivery of the further restructuring of the Hotels business.

c Damage to properties resulting from fire and natural disasters.

d A curtailment gain arose as a result of the sale of UK hotel properties.

e Following adoption of IAS 39 at 1 January 2005, adjustments to market value are recorded directly in equity. In 2004, under UK GAAP, the adjustment is a reversal of previously recorded provisions.

f Relates to an impairment in value of associate investments.

g Relates to interest on special tax refunds.

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

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

j 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.

	2005 £m	2004 £m
6 FINANCE COSTS		
Financial income		
Interest on tax refunds	–	22
Interest income	30	48
	30	70
Financial expenses		
Financial expense on early settlement of debt	–	17
Costs of closing out currency swaps and refinancing the Group's debt	–	16
Interest expense – Hotels	54	70
Interest expense – Soft Drinks	9	–
	63	103

7 TAX

	2005 £m	2004 £m
Income tax		
UK corporation tax at 30% (2004 30%):		
Current period	11	23
Adjustments in respect of prior periods	(6)	(48)
	5	(25)
Foreign tax:		
Current period	149	62
Benefit of tax losses on which no deferred tax previously recognised	(2)	(9)
Adjustments in respect of prior periods	(19)	(82)
	128	(29)
Total current tax	133	(54)
Deferred tax:		
Origination and reversal of temporary differences	(3)	18
Changes in tax rates	(2)	(11)
Adjustments to estimated recoverable deferred tax assets	1	12
Adjustments in respect of prior periods	(11)	(96)
Total deferred tax	(15)	(77)
Total income tax on profit for the year	118	(131)
Further analysed as tax relating to:		
Profit before special items	88	56
Special items (see note 5):		
Other operating income and expenses:		
Impairment of property, plant and equipment	-	(14)
Restructuring costs	-	(8)
Provision for investment in other financial assets	-	3
Financing:		
Financial expense on early settlement of debt	-	(5)
Other	-	2
Special tax credit*	(8)	(161)
Tax charge/(credit)	80	(127)
Gain on disposal of assets	38	(4)
	118	(131)
The tax charge/(credit), excluding gain on disposal of assets, can be further analysed as relating to:		
Profit on continuing operations	28	(194)
Profit on discontinued operations	52	67
	80	(127)

* 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.

	2005 %	2004 %
Reconciliation of tax charge/(credit) on total profit, including gain on disposal of assets		
UK corporation tax at standard rate	30.0	30.0
Permanent differences	1.3	1.5
Net effect of different rates of tax in overseas businesses	2.9	6.3
Effect of changes in tax rates	(0.3)	(3.9)
Benefit of tax losses on which no deferred tax previously recognised	(0.1)	(1.1)
Effect of adjustments to estimated recoverable deferred tax assets	0.1	4.3
Adjustment to tax charge in respect of prior periods	(4.5)	(22.6)
Other	(0.1)	0.6
Special items and gains on disposal of assets	(10.7)	(61.9)
	18.6	(46.8)

notes to the financial statements

	2005 pence per share	2004 pence per share	2005 £m	2004 £m
8 DIVIDENDS PAID AND PROPOSED				
Paid during the year:				
Final (declared in previous year)	10.00	9.45	61	70
Interim	4.60	4.30	20	29
Special interim	–	72.00	–	501
	14.60	85.75	81	600
Proposed for approval at the Annual General Meeting (not recognised as a liability at 31 December):				
Final	10.70	10.00	46	62

The proposed final dividend is payable on the shares in issue at 31 March 2006.

9 EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share is calculated by dividing the profit for the year available for IHG equity holders by the weighted average number of ordinary shares, excluding investment in own shares, in issue during the year.

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 year. The resulting weighted average number of dilutive ordinary shares is 533 million (2004 718 million).

Shareholder approval was given on 1 June 2005 to recommended proposals for the return of approximately £1bn to shareholders by way of a capital reorganisation (by means of a Scheme of Arrangement under Section 425 of the Companies Act 1985). Under the arrangement, shareholders received 11 new ordinary shares and £24.75 cash in exchange for every 15 existing ordinary shares held on 24 June 2005. The overall effect of the transaction was that of a share repurchase at fair value, therefore no adjustment has been made to comparative data.

	note	2005		2004	
		Continuing operations £m	Total £m	Continuing operations £m	Total £m
Basic earnings per share					
Profit available for equity holders		116	496	246	383
Basic weighted average number of ordinary shares (millions)		521	521	710	710
Basic earnings per share (pence)		22.3	95.2	34.6	53.9
Adjusted earnings per share					
Profit available for equity holders		116	496	246	383
Less adjusting items:					
Other operating income and expenses	5	22	22	49	49
Financing	5	–	–	11	11
Tax	5	(8)	(8)	(183)	(183)
Gain on disposal of assets, net of tax		–	(311)	–	(19)
Adjusted earnings		130	199	123	241
Basic weighted average number of ordinary shares (millions)		521	521	710	710
Adjusted earnings per share (pence)		24.9	38.2	17.3	33.9
Diluted earnings per share					
Profit available for equity holders		116	496	246	383
Diluted weighted average number of ordinary shares (millions) (see below)		533	533	718	718
Diluted earnings per share (pence)		21.8	93.1	34.3	53.3

	2005 millions	2004 millions
Diluted weighted average number of ordinary shares is calculated as:		
Basic weighted average number of ordinary shares	521	710
Dilutive potential ordinary shares – employee share options	12	8
	533	718

Adjusted earnings per ordinary share is disclosed in order to show performance undistorted by special items, to give a more meaningful comparison of the Group's performance.

10 PROPERTY, PLANT AND EQUIPMENT	Land and buildings £m	Fixtures, fittings and equipment £m	Plant and machinery £m	Total £m
Cost				
At 31 December 2004	1,421	985	182	2,588
Additions	15	107	18	140
Net transfers to non-current assets classified as held for sale	(163)	(150)	–	(313)
Disposals	(152)	(333)	(200)	(685)
Impairment	–	(7)	–	(7)
Exchange and other adjustments	34	13	–	47
At 31 December 2005	1,155	615	–	1,770
At 1 January 2004	3,004	1,635	165	4,804
Additions	50	140	27	217
Net transfers to non-current assets classified as held for sale	(1,471)	(667)	–	(2,138)
Disposals	(83)	(89)	(10)	(182)
Impairment	(20)	–	–	(20)
Exchange and other adjustments	(59)	(34)	–	(93)
At 31 December 2004	1,421	985	182	2,588
Depreciation				
At 31 December 2004	132	425	105	662
Provided	11	88	17	116
Net transfers to non-current assets classified as held for sale	(10)	(58)	–	(68)
On disposals	(32)	(156)	(122)	(310)
Exchange and other adjustments	–	14	–	14
At 31 December 2005	101	313	–	414
At 1 January 2004	168	608	97	873
Provided	12	131	18	161
Net transfers to non-current assets classified as held for sale	(59)	(253)	–	(312)
On disposals	(11)	(52)	(10)	(73)
Impairment	28	–	–	28
Exchange and other adjustments	(6)	(9)	–	(15)
At 31 December 2004	132	425	105	662
Net book value				
At 31 December 2005	1,054	302	–	1,356
At 31 December 2004	1,289	560	77	1,926
At 1 January 2004	2,836	1,027	68	3,931

At 31 December 2005, property, plant and equipment have been written down by £7m (2004 £48m) following an impairment review of certain hotel assets based on current market trading conditions. The fair value has been measured by reference to recent transactions for hotel assets in relevant markets.

notes to the financial statements

11 HELD FOR SALE AND DISCONTINUED OPERATIONS**Hotels**

During the year ended 31 December 2005, the Group sold 112 hotels (2004 10 hotels) continuing the asset disposal programme commenced in 2003. At 31 December 2004, 106 hotel properties were classified as held for sale. During 2005, an additional 35 hotel properties were added and three hotel properties were removed from the held for sale classification. At 31 December 2005 and 31 December 2004, no gain or loss arose on the measurement to fair value less cost to sell of held for sale assets.

	2005 £m	2004 £m
Net assets of hotels on disposal		
Property, plant and equipment	1,961	100
Goodwill	20	-
Net working capital	1	(1)
Cash and cash equivalents	16	-
Deferred tax payable	(121)	(5)
Minority equity interest	-	(11)
Group's share of net assets disposed of	1,877	83
Net cash inflow		
Cash consideration (net of costs paid)	1,832	101
Cash disposed of	(16)	-
	1,816	101
Total consideration		
Cash consideration (net of costs paid)	1,832	101
Deferred consideration	40	-
Management contract value	82	-
Tax (charge)/credit	(38)	4
Other	(12)	(3)
	1,904	102
Assets and liabilities held for sale		
Non-current assets classified as held for sale:		
Property, plant and equipment	279	1,826
Liabilities classified as held for sale:		
Deferred tax payable	(34)	(148)
Cash flows related to discontinued operations		
Operating profit before interest, depreciation and amortisation	94	203
Investing activities	(44)	(78)
Financing activities	(13)	(3)

11 HELD FOR SALE AND DISCONTINUED OPERATIONS (CONTINUED)**Soft Drinks**

During December 2005, the Group disposed of all of its interests in the Soft Drinks business with the initial public offering of Britvic plc.

Net liabilities of Soft Drinks on disposal	2005 £m	
Property, plant and equipment	234	
Goodwill	18	
Software	25	
Inventories	36	
Trade and other receivables	141	
Cash and cash equivalents	1	
Current liabilities	(162)	
Borrowings	(341)	
Employee benefits	(91)	
Deferred tax payable	8	
Minority equity interest	66	
Group's share of net liabilities disposed of	(65)	
Net cash inflow		
Cash consideration (net of costs paid)	221	
Cash disposed of	(1)	
	220	
Total consideration		
Cash consideration (net of costs paid)	221	
Other	(2)	
	219	
Cash flows related to discontinued operations	2005 £m	2004 £m
Operating profit before interest, depreciation and amortisation	115	123
Investing activities	(47)	(70)
Financing activities	162	(25)

notes to the financial statements

	2005 £m	2004 £m
12 GOODWILL		
At 1 January	152	158
Disposals	(44)	-
Exchange and other adjustments	10	(6)
At 31 December	118	152

Goodwill acquired through past business combinations has been allocated to cash-generating units (CGUs) for impairment testing as follows:

	2005 £m	2004 £m
Hotels		
Americas managed and franchised operations (comprising several CGUs)	82	75
Asia Pacific managed and franchised operations	36	53
Soft Drinks	-	24
	118	152

The recoverable amounts of the Hotels CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding discount rates and growth rates. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Growth rates are based on both management development plans and industry growth forecasts.

Americas managed and franchised operations

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next year and extrapolates cash flows for the following four years based on an estimated growth rate of 4% (2004 5%). After this period, the terminal value of future cash flows is calculated based on a perpetual growth rate of approximately 2% (2004 2%). The rate used to discount the forecast cash flow ranges from 10.0% to 10.5% (2004 10.0% to 10.5%).

Asia Pacific managed and franchised operations

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next year and extrapolates cash flows for the following four years based on an estimated growth rate of 4% (2004 7%). After this period, the terminal value of future cash flows is calculated based on a perpetual growth rate of approximately 4% (2004 4%). The rate used to discount the forecast cash flows is 11.0% (2004 11.0%).

The reduction in growth rates from 2004 is a result of the completion of several sale and manage back transactions in 2005 which had previously been included in forecast growth rates.

13 INTANGIBLE ASSETS

	Software £m	Management contracts £m	Other intangibles £m	Total £m
Cost				
At 31 December 2004	52	–	22	74
Additions	14	82	5	101
Disposals	(32)	–	(1)	(33)
Exchange and other adjustments	4	2	2	8
At 31 December 2005	38	84	28	150
At 1 January 2004	22	–	23	45
Additions	32	–	1	33
Exchange and other adjustments	(2)	–	(2)	(4)
At 31 December 2004	52	–	22	74
Amortisation				
At 31 December 2004	(13)	–	(7)	(20)
Provided	(9)	(3)	(2)	(14)
On disposals	7	–	–	7
Exchange and other adjustments	(2)	–	(1)	(3)
At 31 December 2005	(17)	(3)	(10)	(30)
At 1 January 2004	(2)	–	(7)	(9)
Provided	(12)	–	–	(12)
Exchange and other adjustments	1	–	–	1
At 31 December 2004	(13)	–	(7)	(20)
Net book value				
At 31 December 2005	21	81	18	120
At 31 December 2004	39	–	15	54
At 1 January 2004	20	–	16	36

14 INVESTMENTS IN ASSOCIATES

The Group holds eight (2004 eight) investments accounted for as associates. The following table summarises the financial information of the associates.

	2005 £m	2004 £m
Share of associates' balance sheet		
Current assets	4	5
Non-current assets	93	92
Current liabilities	(9)	(7)
Non-current liabilities	(46)	(48)
Net assets	42	42
Share of associates' revenue and profit		
Revenue	18	14
Net profit	1	–
Related party transactions		
Revenue from related parties	3	3
Amounts owed by related parties	2	1

notes to the financial statements

15 OTHER FINANCIAL ASSETS	2005 £m	2004 £m
Non-current		
Equity securities available-for-sale	41	19
Other	72	61
	113	80
Current		
Equity securities available-for-sale	104	80
Derivatives	2	-
	106	80

Available-for-sale financial assets consist of equity investments in listed and unlisted shares. The fair value of unlisted equity shares has been estimated using valuation guidelines issued by the British Venture Capital Association and is based on assumptions regarding expected future earnings. Listed equity share valuation is based on observable market prices.

Other financial assets consist mainly of trade deposits made in the normal course of business. The deposits have been designated as loans and receivables and are held at amortised cost. The fair value has been calculated by discounted future cash flows using prevailing interest rates.

16 INVENTORIES	2005 £m	2004 £m
Raw materials	-	9
Finished goods	2	23
Consumable stores	1	10
	3	42

17 TRADE AND OTHER RECEIVABLES	2005 £m	2004 £m
Trade receivables	160	285
Other receivables	66	58
Other prepayments	26	47
	252	390

An allowance has been made for doubtful amounts from the provision of services of £47m (2004 £43m).

18 CASH AND CASH EQUIVALENTS	2005 £m	2004 £m
Cash at bank and in hand	34	32
Short-term deposits	290	40
	324	72

Short-term deposits are highly liquid investments with a maturity of three months or less, in various currencies.

19 TRADE AND OTHER PAYABLES

	2005 £m	2004 £m
Current		
Trade payables	84	159
Other tax and social security payable	12	50
Other payables	174	187
Accruals	186	232
Derivatives	6	–
Provisions (see note 25)	6	5
	468	633
Non-current		
Other payables	107	97
Provisions (see note 25)	–	6
	107	103

	31 December 2005			31 December 2004		
	Due within 1 year £m	Due after 1 year £m	Total £m	Due within 1 year £m	Due after 1 year £m	Total £m
20 LOANS AND OTHER BORROWINGS						
Secured bank loans	2	36	38	2	49	51
Unsecured bank loans	–	374	374	12	1,104	1,116
Other unsecured borrowings	–	–	–	18	3	21
Total borrowings	2	410	412	32	1,156	1,188

Secured bank loans

These mortgages are secured on the hotel properties to which they relate. The rates of interest and currencies of these loans vary. Amounts falling due after one year include £15m (2004 £18m) repayable by instalment. Amounts shown as due within one year are the mortgage repayments falling due within this period. The fair value of secured loans is calculated by discounting the expected future cash flows at prevailing interest rates.

Unsecured bank loans

Unsecured bank loans are borrowings under the Group's 2009 £1.1bn Syndicated Facility and its short-term bilateral loan facilities. Amounts are classified as due within one year where the loan facility expires within this period. Covenants exist on these facilities and as at the balance sheet date the Group was not in breach of these covenants. 2004 comparatives include £9m in respect of currency swaps shown as unsecured bank loans under UK GAAP. The carrying value of these loans approximates fair value.

Other unsecured borrowings

In 2004, other unsecured borrowings relate to an £18m tranche of the 2010 €600m Guaranteed Notes 4.75% and £3m of other loan stock. Most of the Guaranteed Notes were repurchased in December 2004, the remaining £18m was repurchased at par on 7 January 2005. The other loan stock relates to the Soft Drinks business, was non interest bearing and was repaid during the year.

	2005			2004		
	Utilised £m	Unutilised £m	Total £m	Utilised £m	Unutilised £m	Total £m
Facilities provided by banks						
Committed	412	751	1,163	1,155	542	1,697
Uncommitted	–	14	14	14	50	64
	412	765	1,177	1,169	592	1,761

	2005 £m	2004 £m
Unutilised facilities expire:		
within one year	39	90
after one year but before two years	–	500
after two years	726	2
	765	592

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21 FINANCIAL RISK MANAGEMENT POLICIES

Financial instruments

The Group's treasury policy is to manage financial risks that arise in relation to underlying business needs. The activities of the treasury function are carried out in accordance with Board approved policies and are subject to regular audit. The treasury function does not operate as a profit centre.

The treasury function seeks to reduce the financial risk of the Group and manages liquidity to meet all foreseeable cash needs. 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 mitigate 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.

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

Interest rate exposure is managed within parameters that stipulate that fixed rate borrowings should normally account for no less than 25% and no more than 75% of net borrowings for each major currency. This is achieved through the use of interest rate swaps and options and forward rate agreements.

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 for individual counterparties. Most of the Group's surplus funds are held in the UK or US and there are no material funds where repatriation is restricted as a result of foreign exchange regulations.

The Group is in compliance with all of the financial covenants in its loan documentation, none of which is expected to represent a material restriction on funding or investment policy in the foreseeable future.

Medium and long-term borrowing requirements are met through the Syndicated facility. Short-term borrowing requirements are met from drawings under bilateral bank facilities.

Sensitivities

Based on the year end net debt position and given the underlying maturity profile of investments, borrowings and hedging instruments at that date, a one percentage point rise in US dollar interest rates would increase the net interest charge by approximately £1m, whilst a similar movement in euro interest rates would increase the net interest charge by approximately £4m.

A general weakening of the US dollar (specifically a one cent rise in the sterling:US dollar rate) would have reduced the Group's profit before tax by an estimated £1m.

Hedging

Interest rate risk The Group hedges its interest rate risk by taking out interest rate swaps to fix the interest flows on between 25% and 75% of its borrowings in major currencies. At 31 December 2005, the Group held interest rate swaps with notional principals of USD200m and EUR160m (2004 USD200m, AUD60m, HKD300m and EUR215m). The interest rate swaps are designated as cash flow hedges of the syndicated loan facility and they are held on the balance sheet at fair value in other financial assets and other payables.

Foreign currency risk The Group is exposed to foreign currency risk on income streams denominated in foreign currencies. The Group hedges a portion of forecast foreign currency income and asset disposal proceeds by taking out forward exchange contracts designated as cash flow hedges. The spot foreign exchange rate is designated as the hedged risk and so the Group takes the forward points on these contracts through financial expenses. The forward contracts all have maturities of less than one year from the balance sheet date.

Forward contracts are held at fair value on the balance sheet as other financial assets and other payables.

Changes in cash flow hedge fair values are recognised in the unrealised gains and losses reserve to the extent that the hedges are effective. When the hedged item is recognised, the cumulative gains and losses on the hedging instrument are recycled to the income statement.

During the year, £1.3m of interest on forward contracts was recognised through financial income and a £4.6m net foreign exchange gain was recognised in the income statement, recycled against the appropriate hedged items.

Hedge of net investment in a foreign operation The Group designates its foreign currency bank borrowings and currency swaps as net investment hedges of foreign operations. The designated risk is the spot foreign exchange risk; the interest on these financial instruments is taken through financial expenses and the swaps are held on the balance sheet at fair value in other financial assets and other payables. Variations in fair value due to changes in the underlying exchange rates are taken to the currency translation reserve until an operation is sold, at which point the cumulative currency gains and losses are recycled against the gain or loss on sale.

22 FINANCIAL INSTRUMENTS

Interest rate risk

For each class of interest bearing financial asset and financial liability, the following table indicates the range of interest rates effective at the balance sheet date, the carrying amount on the balance sheet and the periods in which they reprice, if earlier than the maturity date.

	Effective interest rate %	Total carrying amount £m	Repricing analysis			
			Less than 6 months £m	6 months - 1 year £m	1-2 years £m	More than 2 years £m
31 December 2005						
Cash and cash equivalents	0.0 – 4.5	(324)	(324)	–	–	–
Secured bank loans (fixed)*	6.5 – 7.8	28	–	–	28	–
Secured bank loans (floating)	2.9 – 8.5	10	10	–	–	–
Unsecured bank loans:						
Euro floating rate	2.9	141	141	–	–	–
– effect of euro IR swaps*	(0.4)		(55)	–	55	–
US dollar floating rate	4.7	162	162	–	–	–
– effect of US dollar IR swaps*	0.2		(87)	87	–	–
Hong Kong dollar floating rate	4.7	71	71	–	–	–
Net debt		88	(82)	87	83	–
Effect of currency swaps:						
Receive and pay fixed*	(1.5)	3	3	–	–	–
Receive and pay floating	(2.0)	2	2	–	–	–
		93	(77)	87	83	–

* These items bear interest at a fixed rate.

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 at 31 December 2004, was:

	Net debt £m	Currency swap agreements £m	Total £m	Interest at fixed rate			
				Principal		Weighted average rate %	Weighted average period for which rate is fixed (years)
				At variable rate* £m	At fixed rate £m		
31 December 2004							
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.

Trade and other receivables and trade and other payables are not included in the above tables as they are non-interest bearing and are not subject to interest rate risk.

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22 FINANCIAL INSTRUMENTS (CONTINUED)**Fair values**

The table below compares carrying amounts and fair values of the Group's financial instruments.

	note	2005		2004*	
		Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets					
Cash and cash equivalents	18	324	324	72	72
Equity securities available-for-sale	15	145	145	99	102
Cash flow hedging derivatives	15	2	2	–	9
Other financial assets	15	72	72	61	61
Financial liabilities					
Borrowings	20	(412)	(412)	(1,188)	(1,188)
Cash flow hedging derivatives	19	(6)	(6)	–	(3)

* 2004 book value is based on UK GAAP.

Unrecognised gains and losses

The Group's unrecognised gains and losses for the period ended 31 December 2004 in derivative financial instruments were:

	Gains £m	Losses £m	Total £m
Unrecognised at 1 January 2004	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)

23 EMPLOYEE BENEFITS

Retirement and death in service benefits are provided for eligible Group employees in the UK principally by the InterContinental Hotels UK Pension Plan. The plan covers approximately 400 employees, of which 240 are in the defined benefit section and 160 are in the defined contribution section. The assets of the plan are held in self-administered trust funds separate from the Group's assets. The Group also maintains a US-based InterContinental Hotels Pension Plan and post-employment benefits scheme. 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 UK, the most significant of which is a defined contribution scheme in the US; there is no material difference between the pension costs of, and contributions to, those schemes.

On 14 December 2005, the Soft Drinks business, including the Britvic Pension Plan, was sold. The information provided below includes movements for the Britvic Pension Plan up to the date of disposal, at which point they have been removed.

The amounts recognised in the income statement are:

	Pension plans				Post-employment benefits		Total	
	UK		US		2005	2004	2005	2004
	2005	2004	2005	2004	2005	2004	2005	2004
	£m	£m	£m	£m	£m	£m	£m	£m
Recognised in administrative expenses								
Current service cost	19	18	-	-	-	-	19	18
Past service cost	-	1	-	-	-	-	-	1
Interest cost on benefit obligation	30	27	6	5	1	1	37	33
Expected return on plan assets	(32)	(27)	(5)	(4)	-	-	(37)	(31)
	17	19	1	1	1	1	19	21
Recognised in other operating income and expense								
Plan curtailment	(7)	-	-	-	-	-	(7)	-

The curtailment gain arose as a result of the sale of 73 UK hotel properties.

The amounts recognised in the Group statement of recognised income and expense are:

	Pension plans				Post-employment benefits		Total	
	UK		US		2005	2004	2005	2004
	2005	2004	2005	2004	2005	2004	2005	2004
	£m	£m	£m	£m	£m	£m	£m	£m
Actuarial gains and losses								
Actual return on scheme assets	79	41	4	5	-	-	83	46
Less: expected return on scheme assets	(32)	(27)	(5)	(4)	-	-	(37)	(31)
	47	14	(1)	1	-	-	46	15
Other actuarial gains and losses	(67)	(60)	(3)	(5)	1	(1)	(69)	(66)
	(20)	(46)	(4)	(4)	1	(1)	(23)	(51)
Deficit transferred in respect of previous acquisition								
	-	(6)	-	-	-	-	-	(6)

The assets and liabilities of the schemes are:

	Pension plans				Post-employment benefits		Total	
	UK		US		2005	2004	2005	2004
	2005	2004	2005	2004	2005	2004	2005	2004
	£m	£m	£m	£m	£m	£m	£m	£m
Fair value of scheme assets	250	470	62	56	-	-	312	526
Present value of benefit obligations	(274)	(600)	(103)	(88)	(11)	(11)	(388)	(699)
Employee benefits liability – non-current	(24)	(130)	(41)	(32)	(11)	(11)	(76)	(173)

notes to the financial statements

23 EMPLOYEE BENEFITS (CONTINUED)

The principal assumptions used by the actuaries to determine the benefit obligation were:

	Pension plans				Post-employment benefits	
	UK		US		2005 %	2004 %
	2005 %	2004 %	2005 %	2004 %		
Wages and salaries increases	4.3	4.3	-	-	4.0	4.0
Pensions increases	2.8	2.8	-	-	-	-
Discount rate	4.7	5.3	5.5	5.8	5.5	5.8
Inflation rate	2.8	2.8	-	-	-	-
Healthcare cost trend rate assumed for next year					9.0	9.5
Ultimate rate that the cost trend rate trends to					4.5	4.5

In 2015 the healthcare cost trend rate reaches the assumed ultimate rate. A one per cent point increase/(decrease) in assumed healthcare costs trend rate would increase/(decrease) the accumulated post-employment benefit obligations as of 31 December 2005 and 2004, by approximately £1m, and would increase/(decrease) the total of the service and interest cost components of net post-employment healthcare cost for the period then ended by approximately £nil.

Post-retirement mortality (years)	Pension plans			
	UK		US	
	2005	2004	2005	2004
Current pensioners at 65 – male ^a	21	21	17	17
Current pensioners at 65 – female ^a	24	24	22	22
Future pensioners at 65 – male ^b	22	22	17	17
Future pensioners at 65 – female ^b	25	25	22	22

a Relates to assumptions based on longevity (in years) following retirement at the balance sheet date.

b Relates to assumptions based on longevity (in years) relating to an employee retiring in 2020.

The post-mortality assumptions allow for expected increases in longevity.

Movement in benefit obligation	Pension plans				Post-employment benefits		Total	
	UK		US		2005 £m	2004 £m	2005 £m	2004 £m
	2005 £m	2004 £m	2005 £m	2004 £m				
Benefit obligation at beginning of year	600	477	88	90	11	11	699	578
Current service cost	19	18	-	-	-	-	19	18
Past service cost	-	1	-	-	-	-	-	1
Members' contributions	2	2	-	-	-	-	2	2
Interest expense	30	27	6	5	1	1	37	33
Benefits paid	(11)	(12)	(6)	(5)	(1)	(1)	(18)	(18)
Plan curtailment	(7)	-	-	-	-	-	(7)	-
Deficit transferred in respect of previous acquisition	-	27	-	-	-	-	-	27
Actuarial loss/(gain) arising in the year	67	60	3	5	(1)	1	69	66
Separation of Soft Drinks	(426)	-	-	-	-	-	(426)	-
Exchange adjustments	-	-	12	(7)	1	(1)	13	(8)
Benefit obligation at end of year	274	600	103	88	11	11	388	699

The defined benefit obligation comprises £328m (2004 £647m) arising from plans that are wholly or partly funded and £60m (2004 £52m) arising from unfunded plans.

23 EMPLOYEE BENEFITS (CONTINUED)

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

	2005		2004	
	Long-term rate of return expected %	Value £m	Long-term rate of return expected %	Value £m
UK Schemes				
Equities	7.5	138	8.0	272
Bonds	4.7	110	4.9	173
Other	4.1	2	8.0	25
Total market value of assets		250		470
US Schemes				
Equities	9.6	38	9.6	34
Fixed income	5.5	24	5.5	22
Total market value of assets		62		56

	Pension plans				Post-employment benefits		Total	
	UK		US		2005 £m	2004 £m	2005 £m	2004 £m
	2005 £m	2004 £m	2005 £m	2004 £m				
Movement in plan assets								
Fair value of plan assets at beginning of year	470	353	56	48	-	-	526	401
Company contributions	45	72	2	12	1	1	48	85
Members' contributions	2	2	-	-	-	-	2	2
Assets transferred in respect of previous acquisition	-	14	-	-	-	-	-	14
Benefits paid	(11)	(12)	(6)	(5)	(1)	(1)	(18)	(18)
Expected return on assets	32	27	5	4	-	-	37	31
Actuarial gain/(loss) arising in the year	47	14	(1)	1	-	-	46	15
Separation of Soft Drinks	(335)	-	-	-	-	-	(335)	-
Exchange adjustments	-	-	6	(4)	-	-	6	(4)
Fair value of plan assets at end of year	250	470	62	56	-	-	312	526

History of experience gains and losses:

UK Pension plans	2005 £m	2004 £m	2003 £m
Fair value of scheme assets	250	470	353
Present value of benefit obligations	(274)	(600)	(477)
Deficit in the scheme	(24)	(130)	(124)
Experience adjustments arising on plan liabilities	(67)	(60)	
Experience adjustments arising on plan assets	47	14	

US Pension plans	2005 £m	2004 £m	2003 £m
Fair value of scheme assets	62	56	48
Present value of benefit obligations	(103)	(88)	(91)
Deficit in the scheme	(41)	(32)	(43)
Experience adjustments arising on plan liabilities	(3)	(5)	
Experience adjustments arising on plan assets	(1)	1	

US Post-employment benefits	2005 £m	2004 £m	2003 £m
Present value of benefit obligations	(11)	(11)	(11)
Experience adjustments arising on plan liabilities	1	(1)	

The cumulative amount of actuarial gains and losses recognised since 1 January 2004 in the Group statement of recognised income and expense is £74m (2004 £51m). The Group is unable to determine how much of the pension scheme deficit recognised on transition to IFRS of £178m and taken directly to total equity is attributable to actuarial gains and losses since inception of the schemes. Therefore, the Group is unable to determine the amount of actuarial gains and losses that would have been recognised in the Group statement of recognised income and expense before 1 January 2004.

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24 SHARE-BASED PAYMENTS

Short Term Deferred Incentive Plan The IHG Short Term Deferred Incentive Plan (STDIP) enables eligible employees, including Executive Directors, to receive all or part of their bonus in the form of IHG PLC shares together with, in certain cases, a matching award of free shares up to 0.5 times the deferred amount. The bonus and matching shares are deferred and released in three equal tranches on the first, second and third anniversaries of the award date, conditional on the participants remaining in the employment of a participating company. Participation in the STDIP is at the discretion of the Remuneration Committee. The number of shares is calculated by dividing a specific percentage of the participant's annual performance related bonus by the middle market quoted prices on the three consecutive dealing days immediately preceding the date of grant. A number of executives participated in the plan during the year and conditional rights over 624,508 IHG PLC shares were awarded to participants.

Performance Restricted Share Plan The Performance Restricted Share Plan (PRSP) allows Executive Directors and eligible employees to receive share awards, subject to the satisfaction of a performance condition, set by the Remuneration 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 salary for Executive Directors and four times salary in the case of other eligible employees. In determining the level of awards within this maximum limit, the Remuneration Committee takes into account the level of Executive Share Options granted to the same person. At 31 December 2005, conditional rights over 5,173,633 IHG PLC shares had been awarded to employees under the plan. The plan provides for the grant of 'nil cost options' to participants as an alternative to conditional share awards.

Executive Share Option Plan For options granted, the option price is not less than the market value of an ordinary share, or the nominal value if higher. The market value is the quoted price on the business day preceding the date of grant, or the average of the middle market quoted prices on the three consecutive dealing days immediately preceding the date of grant. A performance condition has to be met before options can be exercised. The performance condition is set by the Remuneration Committee.

In April 2005, options were granted to 58 employees over 2,104,570 IHG PLC shares at 619.83p per share. For options granted in 2005, the Company's adjusted earnings per share over the three year performance period ending 31 December 2007 must increase by at least nine percentage points over the increase in the UK Retail Price Index for the same period for any of the award to vest. Options granted in 2005 are exercisable between 2008 and 2015, subject to achievement of the performance condition.

Sharesave Plan The Sharesave Plan is a savings plan whereby employees contract to save a fixed amount each month with a savings institution for three or five years. At the end of the savings term, employees are given the option to purchase shares at a price set before savings began. The Sharesave Plan is available to all UK employees (including Executive Directors) employed by participating Group companies provided that they have been employed for at least one year. The plan provides for the grant of options to subscribe for ordinary shares at the higher of nominal value and not less than 80% of the middle market quotations of the ordinary shares on the three dealing days immediately preceding the invitation date. The plan was not operated during 2005 and no options were granted in the year under the plan.

US Employee Stock Purchase Plan The US Employee Stock Purchase Plan will allow eligible employees resident in the US an opportunity to acquire Company American Depositary Shares (ADSs) on advantageous terms. The plan, when operational, will comply with Section 423 of the US Internal Revenue Code of 1986. The option to purchase ADSs may be offered only to employees of designated subsidiary companies. The option price may not be less than the lesser of either 85% of the fair market value of an ADS on the date of grant or 85% of the fair market value of an ADS on the date of exercise. Options granted under the plan must generally be exercised within 27 months from the date of grant. The plan was not operated during 2005 and at 31 December 2005 no options had been granted under the plan.

Former Six Continents Share Schemes

Under the terms of the Separation in 2003, holders of options under the Six Continents Executive Share Option Schemes were given the opportunity to exchange their Six Continents PLC options for equivalent value new options over IHG PLC shares. As a result of this exchange, 23,195,482 IHG PLC shares were put under option at prices ranging from 308.48p to 593.29p. The exchanged options were immediately exercisable and are not subject to performance conditions. During 2005, 4,138,482 such options were exercised, leaving a total of 7,909,002 such options outstanding at prices ranging from 308.48p to 593.29p. The latest date that any options may be exercised is October 2012.

24 SHARE-BASED PAYMENTS (CONTINUED)

The Group recognised £17m (2004 £12m) related to equity settled share-based payment transactions during the year.

The aggregate consideration in respect of ordinary shares issued under option schemes during the year was £10m (2004 £16m).

The following table sets forth awards and options granted during 2005. No awards were granted under the Sharesave Plan or US Employee Stock Purchase Plan during the year.

	Short Term Deferred Incentive Plan	Performance Restricted Share Plan	Executive Share Option Plan
Number of shares awarded in 2005	624,508	5,173,633	2,104,570

In 2005 and 2004, the Group used separate option pricing models and assumptions for each plan. The following tables set forth information about how the fair value of each option grant is calculated:

2005	Short Term Deferred Incentive Plan	Performance Restricted Share Plan	Executive Share Option Plan
Valuation model	Binomial	Monte Carlo Simulation and Binomial	Binomial
Weighted average share price	652.8p	702.0p	627.0p
Exercise price			620.0p
Expected dividend yield	2.73%	3.18%	3.62%
Risk-free interest rate			4.69%
Volatility (a)			28%
Term (years) (b)	2.0	3.0	6.5

2004	Short Term Deferred Incentive Plan	Performance Restricted Share Plan	Executive Share Option Plan
Valuation model	Binomial	Monte Carlo Simulation and Binomial	Binomial
Weighted average share price	498.0p	550.0p	494.0p
Exercise price			494.0p
Expected dividend yield	3.74%	3.49%	3.81%
Risk-free interest rate			4.73%
Volatility (a)			31.33%
Term (years) (b)	2.8	3.0	6.5

a The expected volatility was determined by calculating the historical volatility of the Company's share price corresponding to the expected life of the option or share award.

b The expected term of the options is taken to be the mid point between vesting and lapse, as historical exercise patterns have shown this to be appropriate.

notes to the financial statements

24 SHARE-BASED PAYMENTS (CONTINUED)

Movements in the awards and options outstanding under these schemes for the years ended 31 December 2005 and 31 December 2004 are as follows:

	Short Term Deferred Incentive Plan Number of shares thousands	Performance Restricted Share Plan Number of shares thousands
Outstanding at 1 January 2004	107	5,445
Granted	231	2,665
Vested	(47)	–
Lapsed or cancelled	(50)	(375)
Outstanding at 31 December 2004	241	7,735
Granted	625	5,174
Vested	(32)	(1,278)
Lapsed or cancelled	(5)	(997)
Outstanding at 31 December 2005	829	10,634
Fair value of options granted during the period		
At 31 December 2005	649.1p	117.0p
At 31 December 2004	448.3p	125.1p
Weighted average remaining contract life (years)		
At 31 December 2005	1.1	1.2
At 31 December 2004	1.7	1.0

The above awards do not vest until the performance conditions have been met.

	Sharesave Plan			Executive Share Option Plan		
	Number of shares thousands	Range of option prices pence	Weighted average option price pence	Number of shares thousands	Range of option prices pence	Weighted average option price pence
Options outstanding at 1 January 2004	1,373	420.5	420.5	27,220	295.3 - 593.3	424.9
Granted	–	–	–	6,951	494.2	494.2
Exercised	–	–	–	(7,430)	295.3 - 593.3	408.2
Lapsed or cancelled	(111)	420.5	420.5	–	–	–
Options outstanding at 31 December 2004	1,262	420.5	420.5	26,741	308.5 - 593.3	447.6
Granted	–	–	–	2,105	619.8	619.8
Exercised	(118)	420.5	420.5	(4,138)	308.5 - 593.3	429.1
Lapsed or cancelled	(280)	420.5	420.5	(2,089)	345.6 - 619.8	465.3
Options outstanding at 31 December 2005	864	420.5	420.5	22,619	308.5 - 619.8	465.4
Options exercisable						
At 31 December 2005	–	–	–	8,710	308.5 - 619.8	434.3
At 31 December 2004	–	–	–	12,569	308.5 - 593.3	426.4
Fair value of options granted during the period						
At 31 December 2005	–	–	–	164.0p	–	–
At 31 December 2004	–	–	–	136.0p	–	–

Included within this balance are options over 7,909,002 (2004 12,568,562; 2003 19,998,299) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

The weighted average share price at the date of exercise for share options vested during the year was 713.3p. The closing share price on 30 December 2005 was 839.5p and the range during the year was 635.0p to 839.5p per share.

24 SHARE-BASED PAYMENTS (CONTINUED)

Summarised information about options outstanding at 31 December 2005 under the share option schemes is as follows:

	Options outstanding			Options exercisable	
	Number outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence	Number exercisable thousands	Weighted average option price pence
Range of exercise prices (pence)					
Sharesave Plan					
420.5	864	1.9	420.5	-	-
Executive Share Option Plan					
308.5 to 353.8	1,734	4.6	342.7	1,734	342.7
353.9 to 498.0	18,526	7.0	457.8	6,315	441.8
498.1 to 619.8	2,359	7.9	614.9	661	602.2
	22,619	6.9	465.4	8,710	434.3

25 PROVISIONS

	Hotels reorganisation ^a £m	Onerous contracts ^b £m	Total £m
At 1 January 2005:			
Current	4	1	5
Non-current	4	2	6
	8	3	11
Income statement	-	(1)	(1)
Expenditure	(4)	-	(4)
At 31 December 2005 – all current	4	2	6

a Relates to the Hotels reorganisation charged to the non-operating special item in 2003 and is expected to be largely utilised in the year to 31 December 2006.

b Primarily relates to onerous fixed lease contracts acquired with the InterContinental hotels business and having expiry dates to 2006.

notes to the financial statements

	Property, plant and equipment £m	Deferred gains on loan notes £m	Losses £m	Employee benefits £m	Intangible assets £m	Other short-term temporary differences* £m	Total £m
26 DEFERRED TAX PAYABLE							
At 1 January 2004	519	123	(37)	(42)	(37)	(49)	477
Disposals	(5)	-	-	-	-	-	(5)
Income statement	(17)	-	(77)	17	5	(5)	(77)
Statement of recognised income and expense	-	-	-	(14)	-	-	(14)
Exchange and other adjustments	(5)	(1)	1	-	2	4	1
At 31 December 2004	492	122	(113)	(39)	(30)	(50)	382
Disposals	(150)	-	-	34	-	3	(113)
Income statement	(87)	-	(11)	(5)	32	56	(15)
Statement of recognised income and expense	-	-	-	(5)	-	(2)	(7)
Exchange and other adjustments	1	-	1	(1)	(3)	(1)	(3)
At 31 December 2005	256	122	(123)	(16)	(1)	6	244

* Other short-term temporary differences relate primarily to provisions and accruals, investments in associates and joint ventures and share-based payments.

	2005 £m	2004 £m
Analysed as:		
Deferred tax payable	210	234
Liabilities classified as held for sale	34	148
At 31 December	244	382

The deferred tax asset of £123m (2004 £113m) recognised in respect of losses includes £89m (2004 £89m) of capital losses available to be utilised against the realisation of capital gains which are recognised as a deferred tax liability and £34m (2004 £24m) in respect of revenue tax losses.

Tax losses with a value of £282m (2004 £305m), including capital losses with a value of £93m (2004 £98m), have not been recognised as their use is uncertain or not currently anticipated. These losses may be carried forward indefinitely.

Deferred tax assets of £19m (2004 £4m) in respect of share-based payments, £7m (2004 £10m) in respect of employee benefits and £11m (2004 £nil) in respect of other items have not been recognised as their use is uncertain or not currently anticipated.

At 31 December 2005, the Group has not provided deferred tax in relation to temporary differences associated with undistributed earnings of subsidiaries. Quantifying the temporary differences is not practical. However, based on current enacted law and on the basis that the Group is in a position to control the timing and realisation of these temporary differences, no material tax consequences are expected to arise.

27 AUTHORISED AND ISSUED SHARE CAPITAL

Authorised (ordinary shares and redeemable preference share)

The Company was incorporated and registered in England and Wales with registered number 5134420 on 21 May 2004 as a limited company under the Companies Act 1985 with the name Hackremco (No. 2154) Limited. On 24 March 2005, Hackremco (No. 2154) Limited changed its name to New InterContinental Hotels Group Limited. On 27 April 2005, New InterContinental Hotels Group Limited re-registered as a public limited company and changed its name to New InterContinental Hotels Group PLC. On 27 June 2005, New InterContinental Hotels Group PLC changed its name to InterContinental Hotels Group PLC.

On 21 May 2004, the Company had an authorised share capital of £100, divided into 100 ordinary shares of £1 each, of which one ordinary share was allotted, called up and fully paid on incorporation.

On 21 April 2005, the authorised share capital was increased to £50,100 by the creation of one redeemable preference share of £50,000. The redeemable preference share so created was allotted and treated as paid up in full on this date.

On 20 May 2005, the authorised share capital of the Company was increased from £50,100 to £10,000,050,000 by the creation of 9,999,999,900 ordinary shares of £1 each. On 20 May 2005, all of the ordinary shares of £1 each were consolidated into ordinary shares of £6.25 each.

On 30 June 2005, £6.15 on every £6.25 ordinary share was cancelled, thereby reducing the nominal value of each ordinary share to 10p.

At 31 December 2005, the authorised share capital was £160,050,000, comprising 1,600,000,000 ordinary shares of 10p each and one redeemable preference share of £50,000.

	note	Number of shares millions	£m
Allotted, called up and fully paid (ordinary shares)			
At 1 January 2004		739	739
Share capital consolidation	a	(75)	–
Issued under option schemes		4	4
Repurchased and cancelled under repurchase programmes	b	(46)	(46)
At 31 December 2004		622	697
Issued under option schemes		1	1
Repurchased and cancelled under repurchase programmes	b	(19)	(22)
Capital reorganisation	c	(161)	(632)
Issued under option schemes		1	–
Repurchased and cancelled under repurchase programmes	b	(11)	(1)
At 31 December 2005		433	43

a 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 112p each. The share capital consolidation became effective on 13 December 2004. The consolidation had no impact on the authorised redeemable preference share.

b During 2004 and 2005, the Company undertook to return funds of up to £750m to shareholders by way of three consecutive £250m share repurchase programmes, the second of which is expected to be completed in the first half of 2006. During the year, 30,600,010 (2004 46,385,981) ordinary shares were repurchased and cancelled under the authorities granted by shareholders at general meetings held during 2003, 2004 and 2005. Of these, 19,460,010 (2004 46,385,981) were 112p (2004 100p) shares in the capital of InterContinental Hotels Limited (formerly InterContinental Hotels Group PLC) and 11,140,000 were 10p shares in the capital of InterContinental Hotels Group PLC (formerly New InterContinental Hotels Group PLC).

c On 27 June 2005, the capital reorganisation (by means of a scheme of arrangement under Section 425 of the Companies Act 1985) was completed. Under the arrangement, shareholders received 11 new ordinary shares and £24.75 cash in exchange for every 15 existing ordinary shares held on 24 June 2005. The entire issued share capital of InterContinental Hotels Group PLC was transferred to New InterContinental Hotels Group PLC at fair market value, in exchange for the issue of 443 million fully paid ordinary shares of 10p each, which were admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange on that date. In accordance with the merger relief provisions of Sections 131 and 133 of the Companies Act 1985, the 443 million shares are recorded only at nominal value.

d On 8 September 2005, the redeemable preference share was redeemed at par value. The redeemable preference share did not carry any right to receive dividends nor to participate in the profits of the Company.

The authority given to the Company at the Annual General Meeting on 1 June 2005 to purchase its own shares was still valid at 31 December 2005. A resolution to renew the authority will be put to shareholders at the Annual General Meeting on 1 June 2006.

notes to the financial statements

	Equity share capital £m	Capital redemption reserve £m	Shares held by employee share trusts £m	Other reserves £m	Unrealised gains and losses reserve £m	Currency translation reserve £m	Retained earnings £m	IHG shareholders' equity £m
28 IHG SHAREHOLDERS' EQUITY								
At 1 January 2004	753	–	(11)	1,462	–	–	119	2,323
Total recognised income and expense for the year	–	–	–	–	–	(12)	350	338
Issue of ordinary shares ^a	16	–	–	–	–	–	–	16
Repurchase of shares ^a	(46)	–	–	–	–	–	(211)	(257)
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
Equity settled share-based cost	–	–	–	–	–	–	18	18
Equity dividends paid	–	–	–	–	–	–	(600)	(600)
At 31 December 2004	723	46	(22)	1,462	–	(12)	(376)	1,821
Effect of implementing IAS 32/39	–	–	–	–	3	–	(7)	(4)
At 1 January 2005	723	46	(22)	1,462	3	(12)	(383)	1,817
Total recognised income and expense for the year	–	–	–	–	20	31	490	541
Issue of ordinary shares ^a	4	–	–	–	–	–	–	4
Repurchase of shares ^a	(22)	–	–	–	–	–	(102)	(124)
Transfer to capital redemption reserve	–	22	–	–	–	–	(22)	–
Capital reorganisation	(661)	(68)	–	(2,990)	–	–	2,723	(996)
Proceeds from capital reorganisation	–	–	4	–	–	–	–	4
Issue of ordinary shares ^b	6	–	–	–	–	–	–	6
Repurchase of shares ^b	(1)	–	–	–	–	–	(82)	(83)
Transfer to capital redemption reserve	–	1	–	–	–	–	(1)	–
Purchase of own shares by employee share trusts	–	–	(29)	–	–	–	–	(29)
Release of own shares by employee share trusts	–	–	25	–	–	–	(17)	8
Equity settled share-based cost	–	–	–	–	–	–	17	17
Equity dividends paid	–	–	–	–	–	–	(81)	(81)
At 31 December 2005	49	1	(22)	(1,528)	23	19	2,542	1,084

a Relates to the share capital of InterContinental Hotels Limited (formerly InterContinental Hotels Group PLC).

b Relates to the share capital of InterContinental Hotels Group PLC (formerly New InterContinental Hotels Group PLC).

Equity share capital

The balance classified as share capital includes the total net proceeds (both nominal value and share premium) on issue of the Company's equity share capital, comprising 10p shares.

Shares held by employee share trusts

Comprises £21.7m (2004 £21.8m) in respect of 2.9m (2004 3.1m) InterContinental Hotels Group PLC ordinary shares held by employee share trusts, with a market value at 31 December 2005 of £25m (2004 £20m).

Other reserves

Comprises the revaluation reserve previously recognised under UK GAAP and the merger reserve.

Unrealised gains and losses reserve

This reserve records movements for available-for-sale financial assets to fair value and the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments related to hedged transactions that have not yet occurred.

Currency translation reserve

This reserve records the movement in exchange differences arising from the translation of the financial statements of foreign operations and exchange differences on foreign currency borrowings and currency swaps that provide a hedge against a net investment in foreign operations.

29 OPERATING LEASES

During the year ended 31 December 2005, £62m (2004 £67m) was recognised as an expense in the income statement in respect of operating leases.

Total commitments under non-cancellable operating leases are as follows:

	2005 £m	2004 £m
Due within one year	36	55
One to two years	31	51
Two to three years	25	47
Three to four years	19	38
Four to five years	14	31
More than five years	149	884
	274	1,106

The average remaining term of these leases, which generally contain renewal options, is approximately 12 years. No material restrictions or guarantees exist in the Group's lease obligations.

30 CAPITAL COMMITMENTS

	2005 £m	2004 £m
Contracts placed for expenditure on property, plant and equipment not provided for in the financial statements	76	53

31 CONTINGENCIES

	2005 £m	2004 £m
Contingent liabilities not provided for in the financial statements relate to guarantees	20	9

In limited cases, the Group may provide performance guarantees to third-party owners to secure management contracts. The maximum exposure under such guarantees is £134m. 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.

32 RELATED PARTY DISCLOSURES

Key management personnel comprises the Board and Executive Committee.

	2005 £m	2004 £m
Total compensation of key management personnel		
Short-term employment benefits	6.5	5.5
Post-employment benefits	0.2	0.2
Termination benefits	0.8	0.8
Equity compensation benefits	6.9	4.1
	14.4	10.6

There were no transactions with key management personnel during either the year ended 31 December 2005 or the previous year.

notes to the financial statements

33 TRANSITION TO IFRS**Group income statement**

Year ended 31 December 2004	UK GAAP £m	Remeasurement £m	IFRS £m
Revenue	2,204	–	2,204
Cost of sales	(1,477)	–	(1,477)
Administrative expenses	(198)	(10)	(208)
	529	(10)	519
Depreciation and amortisation	(198)	25	(173)
Other operating income and expenses	(29)	(20)	(49)
Operating profit	302	(5)	297
Financial income	70	–	70
Financial expenses	(103)	–	(103)
Profit before tax	269	(5)	264
Tax	117	10	127
Profit after tax	386	5	391
(Loss)/gain on disposal of assets, net of tax	(59)	78	19
Profit available for shareholders	327	83	410
Attributable to:			
Equity holders of the parent	299	84	383
Minority equity interest	28	(1)	27
Profit for the year	327	83	410

Income statement remeasurement

Administrative expenses Under UK GAAP, the cost of retirement benefits are provided 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.

Under UK GAAP, the cost of share-based payments is expensed based on the intrinsic value method over the performance period of each plan. 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 external valuer using option pricing models applied to all share-based payments granted after 7 November 2002.

Depreciation and amortisation Under UK GAAP, goodwill is amortised over 20 years. Under IFRS, goodwill is subject to annual impairment testing and is not amortised. Under IFRS, assets classified as held for sale are not subject to depreciation from the date the assets are designated as held for sale.

Other operating income and expenses Under UK GAAP, impairment of property, plant and equipment is first recorded against the revaluation reserve and then charged to the income statement. Under IFRS transitional rules, the Group elected to retain UK GAAP carrying values of freehold and leasehold hotels including revaluations. All impairments are taken directly to the income statement.

Income tax expense Mainly attributable to tax on impairment of property, plant and equipment previously recorded against the revaluation reserve under UK GAAP and the presentation of tax on disposal of assets.

(Loss)/gain on sale of assets Under IFRS, net asset carrying values have been reduced by the remeasurement of deferred tax, eliminating the provision for loss on disposal of operations recognised under UK GAAP.

33 TRANSITION TO IFRS (CONTINUED)**Group balance sheet**

1 January 2004	UK GAAP £m	Remeasurement £m	Reclassifications £m	IFRS £m
ASSETS				
Property, plant and equipment	3,951	-	(20)	3,931
Goodwill	158	-	-	158
Intangible assets	-	-	36	36
Investment in associates	53	-	-	53
Other financial assets	119	-	25	144
Total non-current assets	4,281	-	41	4,322
Inventories	44	-	-	44
Trade and other receivables	486	(47)	(41)	398
Current tax receivable	37	-	-	37
Cash and cash equivalents	432	-	(21)	411
Total current assets	999	(47)	(62)	890
Total assets	5,280	(47)	(21)	5,212
LIABILITIES				
Short-term borrowings	(13)	-	6	(7)
Trade and other payables	(683)	86	(22)	(619)
Current tax payable	(389)	-	-	(389)
Total current liabilities	(1,085)	86	(16)	(1,015)
Loans and other borrowings	(988)	-	15	(973)
Employee benefits	-	(177)	-	(177)
Provisions and other payables	(176)	46	22	(108)
Deferred tax payable	(314)	(163)	-	(477)
Total non-current liabilities	(1,478)	(294)	37	(1,735)
Total liabilities	(2,563)	(208)	21	(2,750)
Net assets	2,717	(255)	-	2,462
EQUITY				
IHG shareholders' equity	2,554	(215)	(16)	2,323
Minority equity interest	163	(40)	16	139
Total equity	2,717	(255)	-	2,462

notes to the financial statements

33 TRANSITION TO IFRS (CONTINUED)

Group balance sheet

31 December 2004	UK GAAP £m	Remeasurement £m	Reclassifications £m	IFRS £m
ASSETS				
Property, plant and equipment	3,776	(1,811)	(39)	1,926
Goodwill	142	10	–	152
Intangible assets	–	–	54	54
Investment in associates	42	–	–	42
Other financial assets	57	–	23	80
Total non-current assets	4,017	(1,801)	38	2,254
Inventories	42	–	–	42
Trade and other receivables	542	(110)	(42)	390
Current tax receivable	14	–	–	14
Cash and cash equivalents	83	–	(11)	72
Other financial assets	76	–	4	80
Total current assets	757	(110)	(49)	598
Non-current assets classified as held for sale	–	1,826	–	1,826
Total assets	4,774	(85)	(11)	4,678
LIABILITIES				
Short-term borrowings	(43)	–	11	(32)
Trade and other payables	(709)	81	(5)	(633)
Current tax payable	(261)	–	–	(261)
Total current liabilities	(1,013)	81	6	(926)
Loans and other borrowings	(1,156)	–	–	(1,156)
Employee benefits	–	(173)	–	(173)
Provisions and other payables	(230)	122	5	(103)
Deferred tax payable	(248)	14	–	(234)
Total non-current liabilities	(1,634)	(37)	5	(1,666)
Non-current liabilities classified as held for sale	–	(148)	–	(148)
Total liabilities	(2,647)	(104)	11	(2,740)
Net assets	2,127	(189)	–	1,938
EQUITY				
IHG shareholders' equity	1,977	(137)	(19)	1,821
Minority equity interest	150	(52)	19	117
Total equity	2,127	(189)	–	1,938

33 TRANSITION TO IFRS (CONTINUED)**Balance sheet remeasurement**

Held for sale 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 cost to sell. No depreciation is charged on assets held for sale.

Goodwill Under UK GAAP, goodwill is amortised over 20 years. Under IFRS, goodwill is subject to annual impairment testing and is not amortised.

Employee benefit obligations Under UK GAAP, scheme assets and liabilities are not recognised on the Group's balance sheet. Under IFRS, any excess or deficit of scheme assets over scheme liabilities is recorded as an asset or liability, respectively, in the Group's balance sheet. Each year, the scheme net assets or liabilities are adjusted for actuarial gains and losses which are recognised directly in reserves.

Provisions and other payables Under IFRS, net asset carrying values have been reduced by the remeasurement of deferred tax, eliminating the provision for loss on disposal of operations recognised under UK GAAP.

Deferred tax 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 remitted 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.

Balance sheet reclassifications

Software Under IFRS, software is classified as an intangible asset.

Other intangible assets Under IFRS, amounts paid to hotel owners to secure management contracts and franchise agreements are classified as intangible assets.

Other financial assets Under IFRS, long-term receivables are classified as non-current other financial assets.

Cash and cash equivalents Bank overdrafts repayable on demand are a component of cash equivalents where the Group has a right of set off.

Trade and other payables Under IFRS, dividends are recognised as an appropriation of equity in the period in which they are approved.

Reclassifications which do not impact net assets but which increase non-current assets by £7m (2004 opening £11m), reduce current assets by £18m (2004 opening £32m), current liabilities by £6m (2004 opening increase by £16m) and non-current liabilities by £5m (2004 opening £37m) have been made to the balance sheet at 31 December 2004 and 1 January 2004 respectively, as presented in the 2004 Annual Report and Financial Statements. A reclassification has also been made of £19m (2004 opening £16m), reducing IHG shareholders' equity and increasing minority equity interest, in respect of dividends to minority shareholders.

Cash flow

The transition from UK GAAP to IFRS has no effect upon reported cash flows generated by the Group. The IFRS cash flow statement is presented in a different format from that required under UK GAAP with cash flows analysed into three categories of activities – operating activities, investing activities and financing activities.

Adoption of IAS 39

The impact of adopting IAS 39 on 1 January 2005 was to reduce other financial assets by £4m.

34 PRINCIPAL OPERATING SUBSIDIARY UNDERTAKINGS

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

Six Continents Limited (formerly Six Continents PLC)

InterContinental Hotels Group Services Company

InterContinental Hotels Group (Management Services) Limited

InterContinental Hotels Group Operating Corporation

(incorporated and operates principally in the United States)

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 a)

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

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

note a The Group exercised dominant influence and controlled Britannia Soft Drinks Limited up to 14 December 2005 when the Group disposed of all its interests. Accordingly, the Group's investment was treated as a subsidiary undertaking until the date of disposal.

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

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

US GAAP information

Reconciliation to US GAAP

The Group financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union which differ from the accounting principles 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 profit available for IHG equity holders under IFRS and net income under US GAAP and between IHG shareholders' equity under IFRS and IHG shareholders' equity under US GAAP, respectively.

The Group has reclassified certain prior year balance sheet information to conform with the current year presentation.

Differences between International Financial Reporting Standards and United States Generally Accepted Accounting Principles

CLASSIFICATION OF BORROWINGS

Under US GAAP, the amounts shown as repayable after one year for unsecured bank loans drawn under or supported by bank facilities with maturities of up to five years and amounting to £374m (2004 £1,104m) would be classified as current liabilities since the drawings on the facilities are repayable within one year.

PENSIONS

Under IFRS, the cost of providing defined benefit retirement benefits is recognised over the service life of scheme members. The 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. Under US GAAP, the projected benefit obligation (pension liability) in respect of the Group's principal pension plans is matched against the fair value of the plans' assets and is adjusted to reflect any unrecognised obligations or asset in determining the pension cost or credit for the year.

Under IFRS, any excess or deficit of scheme assets over scheme liabilities is recorded as an asset or liability in the Group's balance sheet. Actuarial gains and losses are recognised directly in equity.

Under US GAAP, a corridor approach to the recognition of actuarial gains and losses, such that only actuarial gains and losses in excess of 10% of the greater of plan assets or obligations was recognised in the income statement and spread over the maximum period of the employees' remaining service period.

At 31 December 2005, the accumulated benefit obligations exceeded the fair value of the plans' assets. In these circumstances, US GAAP requires the recognition of the difference as a balance sheet liability and the elimination of any amounts previously recognised as a prepaid pension cost. An equal amount, but not exceeding the amount of unrecognised past service cost, is recognised as an intangible asset with the offsetting balance reported in other comprehensive income.

INTANGIBLE ASSETS

Under IFRS, goodwill arising on acquisitions prior to 1 October 1998 was eliminated against equity. From 1 October 1998 to 31 December 2003, acquired goodwill was capitalised and amortised over a period not exceeding 20 years. Since 1 January 2004, goodwill continued to be capitalised but amortisation ceased as at that date.

Under US GAAP, goodwill arising on acquisitions prior to 1 July 2001 was capitalised and amortised over its estimated useful life, not exceeding 40 years. From 1 October 2002, goodwill and indefinite life intangible assets are not amortised but are reviewed annually for impairment.

Under IFRS, development costs and software are included in intangible assets. Under US GAAP, these assets are included in property, plant and equipment.

Under IFRS, purchase consideration which is contingent on future events is included in the cost of acquisition when receipt is probable and an amount can be reliably measured. Under US GAAP, contingent consideration is recognised when the related contingencies are resolved.

Under IFRS, when assets are sold and a purchaser enters into a management or franchise contract with the Group, the Group capitalises an intangible asset as part of the gain or loss on disposal at an estimate of the fair value of the contract entered into. This value is amortised over the life of the contract. Under US GAAP, an intangible asset is not recognised as there remains continuing involvement in the hotel operations.

PROPERTY, PLANT AND EQUIPMENT

Under IFRS, the deemed cost at transition at 1 January 2004 is the UK GAAP carrying values on that date, including revaluations. Under US GAAP, property, plant and equipment are carried at cost less accumulated depreciation and impairment losses.

Depreciation is based on the book value of assets, including revaluation where appropriate. Prior to 1 October 1999, freehold hotels were not depreciated, 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. From 1 October 1999, all properties were depreciated. There is now no difference between IFRS and US GAAP with regard to depreciation policies.

Under IFRS, impairment is measured by comparing the carrying value of property, plant and equipment with the higher of fair value less cost to sell and value in use. Value in use is assessed based on estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Under US GAAP, impairments of long-lived assets are recognised on the basis of undiscounted cash flows and measured on the basis of discounted cash flows.

The Group recognises a profit on disposal of property, plant and equipment provided substantially all the risks and rewards of ownership have transferred. For the purposes of US GAAP, the Group accounts 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 recognised over the life of the long-term management contract retained on the property.

Prior to the IFRS transition date, cumulative foreign currency exchange gains and losses relating to the disposal of foreign operations were adjusted within equity. Since 1 January 2004, foreign currency gains and losses are included in determining the profit or loss on disposal of foreign operations. At that date, the Group opted to set the currency translation reserve to nil. Under US GAAP, such gains and losses are also included in determining the profit or loss on disposal but are tracked from the date of acquisition of the foreign operation.

STAFF COSTS

The Group provides certain compensation arrangements in the United States through a Rabbi Trust. Under IFRS, the net deficit is recorded as a provision and the net change in the underlying value of the assets and liabilities is recorded as a charge (or credit) to the income statement. Under US GAAP, the marketable securities held by the Rabbi Trust are 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 movements which are recognised in the income statement.

DEFERRED TAX

The Group provides for deferred tax 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. Under US GAAP, deferred tax is 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 tax assets under IFRS are recognised to the extent that it is regarded as probable that the deductible temporary differences can be utilised. Under US GAAP, deferred tax assets are recognised in full and a valuation allowance is made to the extent that it is not more likely than not that they will be realised.

Under IFRS, a deductible temporary difference arises in respect of estimated future tax deductions on share-based payments based upon the share price at the balance sheet date. Any excess of the asset recognised over the cumulative compensation expense recorded in the income statement multiplied by the statutory tax

rate is recorded directly in equity. Under US GAAP, a deferred tax asset in respect of future deductible amounts is calculated only to the extent of the cumulative compensation expense recorded to date in the income statement. Where actual tax deductions received upon exercise exceed the amount of any deferred tax asset the excess is recorded in equity. Where actual tax deductions are less than the deferred tax asset, the write-down of the asset is recorded against equity to the extent of previous tax benefits recorded in this account with any remainder recorded in the income statement.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The Group enters into derivative instruments to limit its exposure to interest rate and foreign exchange risk. In 2004 under IFRS transitional provisions, these instruments were measured at cost and accounted for as hedges, whereby gains and losses were deferred until the underlying transaction occurred. Under US GAAP, all derivative instruments (including those embedded in other contracts) are recognised on the balance sheet at their fair values. Changes in fair value are recognised in net income unless specific hedge criteria are met. The Group adopted both IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' from 1 January 2005. There is now no difference between IFRS and US GAAP with regard to derivatives entered into after 1 January 2005.

GUARANTEES

The Group gives guarantees in connection with obtaining long-term management contracts. Under IFRS, a contingent liability is not recognised. For the purposes of US GAAP, under Financial Accounting Standards Board 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 records the fair value of such guarantees as an asset and liability, which are amortised over the life of the contract.

ASSETS AND LIABILITIES HELD FOR SALE

Under IFRS, assets and liabilities are classified as held for sale when the criteria under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' are met. Under US GAAP, similar criteria are applied to held for sale assets. However, FAS 66 'Accounting for Sales of Real Estate' excludes any assets from being included as held for sale where there will be a continuing involvement in the asset.

DISCONTINUED OPERATIONS

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 co-ordinated plan to dispose of a separate line of business or geographical area of operations. 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 IN ACCORDANCE WITH US GAAP

The significant adjustments required to convert profit available for IHG equity holders in accordance with IFRS to net income in accordance with US GAAP are:

	31 Dec 2005 £m	31 Dec 2004 £m	31 Dec 2005 ^a \$m	31 Dec 2004 ^a \$m
Profit available for IHG equity holders in accordance with IFRS	496	383	906	700
Adjustments:				
Pension costs	(20)	(9)	(37)	(17)
Amortisation of intangible assets	(1)	(3)	(2)	(6)
Depreciation of property, plant and equipment	(31)	(20)	(57)	(36)
Disposal of property, plant and equipment	(107)	5	(196)	9
Impairment of property, plant and equipment	(17)	30	(30)	55
Provisions	(3)	(5)	(4)	(9)
Gain on held for sale equity investment	-	(28)	-	(51)
Staff costs	(3)	2	(6)	3
Deferred revenue	12	5	22	10
Change in fair value of derivatives ^b	6	52	11	95
Deferred tax: on above adjustments	17	4	31	7
methodology	(2)	(79)	(3)	(145)
	(149)	(46)	(271)	(85)
Minority share of above adjustments	4	3	7	4
	(145)	(43)	(264)	(81)
Net income in accordance with US GAAP	351	340	642	619
Analysed as:				
Continuing operations	100	257	183	467
Discontinued operations	251	83	459	152
	351	340	642	619
	31 Dec 2005 £	31 Dec 2004 £	31 Dec 2005 ^a \$	31 Dec 2004 ^a \$
Basic^c net income per American Depositary Share				
Continuing operations	0.19	0.36	0.35	0.66
Discontinued operations	0.48	0.12	0.88	0.21
	0.67	0.48	1.23	0.87
Diluted^d net income per American Depositary Share				
Continuing operations	0.19	0.35	0.34	0.65
Discontinued operations	0.47	0.12	0.86	0.21
	0.66	0.47	1.20	0.86

a Translated at the weighted average rate of exchange for the period of £1 = \$1.83 (2004 £1 = \$1.82).

b Comprises net gains in the fair value of derivatives that do not qualify for hedge accounting of £6m (2004 £50m) and net gains reclassified from other comprehensive income of £nil (2004 £2m).

c Calculated by dividing net income in accordance with US GAAP of £351m (2004 £340m) by 521 million (2004 710 million) shares, being the weighted average number of ordinary shares in issue during the year. Each American Depositary Share represents one ordinary share.

d Calculated by dividing net income in accordance with US GAAP of £351m by 533 million (2004 720 million) shares, being the weighted average number of dilutive ordinary shares.

SHAREHOLDERS' EQUITY IN ACCORDANCE WITH US GAAP

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

	31 Dec 2005 £m	31 Dec 2004 £m	31 Dec 2005 ^a \$m	31 Dec 2004 ^a \$m
IHG shareholders' equity in accordance with IFRS	1,084	1,821	1,869	3,513
Adjustments:				
Intangible assets:				
Cost: goodwill	761	781	1,313	1,507
other intangible assets	655	612	1,130	1,181
Accumulated amortisation	(260)	(217)	(448)	(419)
	1,156	1,176	1,995	2,269
Intangible asset – minimum pension liability	1	3	1	6
	1,157	1,179	1,996	2,275
Property, plant and equipment:				
Cost	327	(29)	564	(56)
Assets classified as held for sale	(21)	1,526	(36)	2,944
Accumulated depreciation	(19)	31	(34)	60
	287	1,528	494	2,948
Other financial assets	(2)	3	(3)	6
Non-current assets classified as held for sale	21	(1,526)	36	(2,944)
Current assets:				
Pension prepayment	-	57	-	111
Other receivables	20	22	35	44
Derivatives	-	9	-	18
Current liabilities:				
Other payables	(7)	5	(11)	10
Derivatives	-	(1)	-	(2)
Non-current liabilities:				
Other payables	(350)	(99)	(603)	(192)
Derivatives	-	(2)	-	(4)
Provisions	4	8	6	15
Employee benefits	15	77	27	149
Deferred tax payable: on above adjustments	(204)	(357)	(352)	(688)
methodology	(10)	-	(16)	-
Liabilities classified as held for sale	1	148	1	284
	932	1,051	1,610	2,030
Minority share of above adjustments	-	(76)	-	(148)
	932	975	1,610	1,882
IHG shareholders' equity in accordance with US GAAP	2,016	2,796	3,479	5,395

a Translated at the rate of exchange ruling at the balance sheet date of £1 = \$1.73 (2004 £1 = \$1.93).

statement of directors' responsibilities

IN RELATION TO THE GROUP 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 Group financial statements.

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

The Directors are required to prepare Group financial statements for each financial year which present fairly the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period.

Following discussions with the auditors, the Directors consider that in preparing the Group financial statements on pages 34 to 75 inclusive, the Group 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 Group keeps accounting records which disclose with reasonable accuracy the financial position of the Group and which enable them to ensure that the Group financial statements comply with the Companies Act 1985 and article 4 of the IAS Regulation.

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

independent auditor's report to the shareholders of InterContinental Hotels Group PLC

IN RELATION TO THE GROUP FINANCIAL STATEMENTS

We have audited the Group financial statements of InterContinental Hotels Group PLC for the year ended 31 December 2005 which comprise Group income statement, Group statement of recognised income and expense, Group cash flow statement, Group balance sheet, corporate information and accounting policies and the related notes 1 to 34. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of InterContinental Hotels Group PLC for the year ended 31 December 2005 and on 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 auditor's 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 and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the Group financial statements, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 Financial Reporting Council Combined 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 Group financial statements. The other information comprises only the financial highlights, operating and financial review, Directors' Report, Corporate Governance Statement, Audit Committee Report, Remuneration Report and US GAAP information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group 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 Group financial statements 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 Group financial statements.

OPINION

In our opinion the Group financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Ernst & Young LLP,
Registered auditor, London.
1 March 2006

company financial statements

COMPANY BALANCE SHEET

31 December 2005	note	2005 £m	2004 £m
Fixed assets			
Investments	3	2,767	-
Current assets			
Debtors	4	137	-
Creditors: amounts falling due within one year	5	(1,086)	-
Net current liabilities		(949)	-
Net assets		1,818	-
Capital and reserves			
Called up share capital	6	43	-
Share premium account	7	6	-
Capital redemption reserve	7	1	-
Profit and loss account	7	1,768	-
Equity shareholders' funds		1,818	-

Signed on behalf of the Board

Richard Solomons

1 March 2006

No profit and loss account is presented for InterContinental Hotels Group PLC as permitted by Section 230 of the Companies Act 1985. Loss on ordinary activities after taxation amounts to £851m (2004 £nil).

Notes on pages 83 to 85 form an integral part of these financial statements.

notes to the company financial statements

1 ACCOUNTING POLICIES

Basis of accounting

The financial statements are prepared under the historical cost convention. They have been drawn up to comply with applicable accounting standards. These accounts are for the Company and are not consolidated financial statements.

Fixed asset investments

Fixed asset investments are stated at cost less any provision for impairment.

2 CHANGES IN CAPITAL

On 27 June 2005, under a Court-approved scheme of arrangement made pursuant to Section 425 of the Companies Act, shareholders on the register of the company then named InterContinental Hotels Group PLC (company number 4551528) (old IHG) at the record date exchanged their existing ordinary shares in IHG for a combination of new ordinary shares in the Company and cash on the following basis:

for every 15 existing ordinary shares

11 new ordinary shares and

£24.75 in cash (equivalent to £1.65 for every existing ordinary share held).

Information regarding the scheme was sent to old IHG shareholders in a circular dated 3 May 2005 (the Circular). Save where the context otherwise requires, terms and expressions used in this note shall have the same meaning as in the Circular. Under the scheme:

(a) the existing ordinary shares were cancelled and old IHG shareholders at the record date were allotted 11 new ordinary shares, credited as fully paid, and were paid £24.75 in cash for every 15 existing ordinary shares then held; and

(b) following the cancellation of the existing ordinary shares, the issued share capital of old IHG was restored to its former amount by the application of the whole of the reserve arising in the books of old IHG from the cancellation to issue shares of an equivalent nominal amount to the Company.

As a result, the Company became the new holding company of old IHG and the issued ordinary share capital of the Company is owned by the former shareholders in old IHG.

Fractional entitlements to new ordinary shares were not allotted to old IHG shareholders but were aggregated and sold on their behalf. Under the scheme, the existing ordinary shares were cancelled and ceased to be valid.

Shareholders owned the same proportion of the Company, subject to the adjustment for fractional entitlements, immediately following the implementation of the scheme as they held in old IHG immediately before the implementation of the scheme.

On 30 June 2005, the Court-approved reduction of capital of the Company to create approximately £2.7bn of distributable reserves, by decreasing the nominal value of each new ordinary share issued pursuant to the scheme from £6.25 to 10p, became effective.

3 INVESTMENTS

	£m
At 1 January 2005	–
Additions	3,763
Impairment	(996)
At 31 December 2005	2,767

notes to the company financial statements

4 DEBTORS	2005 £m	2004 £m
Amounts due from subsidiary undertakings	131	–
Corporate taxation	6	–
	137	–

5 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2005 £m	2004 £m
Amounts due to subsidiary undertakings	1,086	–

6 SHARE CAPITAL	Number of shares millions	£m
Authorised (ordinary shares and redeemable preference share):		
At 31 December 2004 (100 ordinary shares of £1 each)	–	–
One redeemable preference share (£50,000) a	–	–
Increase in ordinary shares of £1 each b	10,000	10,000
At 31 December 2005	10,000	10,000

Allotted, called up and fully paid:		
At 31 December 2004 (one ordinary share of £1 each)	–	–
Issue of one redeemable preference share (£50,000) a	–	–
Issue of 49 ordinary shares (£1 each)	–	–
Share capital consolidation (£6.25 each) b	–	–
Ordinary shares issued to acquire IHG (£6.25 each) c	443	2,767
Capital reduction (£6.25 to 10p each) d	–	(2,723)
Redemption of redeemable preference share (£50,000) e	–	–
Issued under option schemes (10p each)	1	–
Repurchase of shares	(11)	(1)
At 31 December 2005	433	43

a On 21 April 2005, the authorised share capital was increased to £50,100 by the creation of one redeemable preference share of £50,000. The redeemable preference share so created was allotted and treated as paid up in full on this date.

b On 20 May 2005, the authorised share capital of the Company was increased from £50,100 to £10,000,050,000 by the creation of 9,999,999,900 ordinary shares of £1 each. On 20 May 2005, all of the ordinary shares of £1 each were consolidated into ordinary shares of £6.25 each.

c On 27 June 2005, the Company issued 442,695,913 shares to acquire old IHG pursuant to the scheme (see note 2).

d On 30 June 2005, £6.15 on every £6.25 ordinary share was cancelled, thereby reducing the nominal value of each ordinary share to 10p, pursuant to the scheme.

e On 8 September 2005, the redeemable preference share was redeemed at par value. The redeemable preference share did not carry any right to receive dividends nor to participate in the profits of the Company.

The aggregate consideration in respect of ordinary shares issued under option schemes during the year was £6m (2004 £nil).

Options to subscribe for ordinary shares	thousands
At 31 December 2004	–
Options adopted as a result of capital reorganisation*	27,022
Exercised	(2,997)
Lapsed or cancelled	(542)
At 31 December 2005	23,483
Option exercise price per ordinary share (pence)	308.48 – 619.83
Final exercise date	4 April 2015

* All existing old IHG share option schemes were adopted by the Company when it became the new holding company of IHG on 27 June 2005.

The authority given to the Company at the Extraordinary General Meeting on 1 June 2005 to purchase its own shares was still valid at 31 December 2005. A resolution to renew the authority will be put to shareholders at the Annual General Meeting on 1 June 2006.

	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m
7 MOVEMENTS IN RESERVES			
At 31 December 2004	-	-	-
Capital reduction (note 6)	-	-	2,723
Premium on allotment of ordinary shares	6	-	-
Repurchase of shares	-	-	(83)
Transfer to capital redemption reserve	-	1	(1)
Retained loss for the period	-	-	(871)
At 31 December 2005	6	1	1,768

8 PROFIT AND DIVIDENDS

Loss on ordinary activities after taxation amounts to £851m (2004 £nil).

An interim dividend of 4.60p (2004 nil) per share was paid during the year, amounting to £20m (2004 £nil).

A final dividend of 10.70p (2004 nil) per share, amounting to £46m (2004 £nil), is proposed for approval at the Annual General Meeting. The proposed final dividend is payable on shares in issue at 31 March 2006.

9 CONTINGENCIES

Contingent liabilities of £446m (2004 £nil) in respect of guarantees of the liabilities of subsidiaries have not been provided for in the financial statements.

statement of directors' responsibilities

IN RELATION TO THE COMPANY FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the Independent Auditor's Report, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the Company financial statements.

Following discussions with the auditors, the Directors consider that, in preparing the Company financial statements, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed. The Company financial statements have been prepared on a going concern basis as the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

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 Company 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.

independent auditor's report to the shareholders of InterContinental Hotels Group PLC

IN RELATION TO THE COMPANY FINANCIAL STATEMENTS

We have audited the parent company financial statements of InterContinental Hotels Group PLC for the year ended 31 December 2005 which comprise Company balance sheet and the related notes 1 to 9. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of InterContinental Hotels Group PLC for the year ended 31 December 2005.

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 auditor's 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, the Remuneration Report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company 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 parent company 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 regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the financial highlights, operating and financial review, Directors' Report, Corporate Governance Statement, Audit Committee Report, unaudited part of the Remuneration Report and US GAAP information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company 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 parent company financial statements, and of whether the accounting policies are appropriate to the Company'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 parent company 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 parent company financial statements and the part of the Remuneration Report to be audited.

OPINION

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005; and
- the parent company 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.
1 March 2006

glossary

ADJUSTED	excluding the effect of special items, gain/loss on disposal of assets and any relevant tax.	MANAGEMENT CONTRACT	a contract to operate a hotel on behalf of the hotel owner.
AVERAGE DAILY RATE	room revenue divided by the number of room nights sold. Also known as average room rate.	MARKET CAPITALISATION	the value attributed to a listed company by multiplying its share price by the number of shares in issue.
BASIC EARNINGS PER SHARE	profit available for IHG equity holders divided by the weighted average number of ordinary shares in issue during the year.	MIDSCALE HOTEL	a hotel in the three/four star category, e.g. Holiday Inn, Holiday Inn Express.
CAPITAL EXPENDITURE	cash expended on purchases of property, plant and equipment and purchases of associates and other financial assets.	NET DEBT	borrowings less cash and cash equivalents.
CASH-GENERATING UNIT	a portfolio of similar assets that are subject to the same economic and commercial influences.	OCCUPANCY RATE	rooms occupied by hotel guests, expressed as a percentage of rooms that are available.
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.	OPERATING MARGIN	operating profit before other operating income and expenses expressed as a percentage of revenue.
CONTINGENT LIABILITY	a liability that is contingent upon the occurrence of one or more uncertain future events.	PIPELINE	signed/executed agreements, including franchises and management contracts, for hotels which will enter the InterContinental Hotels system at a future date.
CONTINUING OPERATIONS	operations not classified as discontinued and including acquisitions made during the year.	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 daily rate).
CURRENCY SWAP	an exchange of a deposit and a borrowing, each denominated in a different currency, for an agreed period of time.	ROOM COUNT	number of rooms owned, managed or franchised by InterContinental Hotels.
DISCONTINUED OPERATIONS	operations that have been sold and assets classified as held for sale when the results relate to a separate line of business, geographical area of operations, or where there is a co-ordinated plan to dispose of a separate line of business or geographical area of operations.	ROOM REVENUE	revenue generated from the sale of room nights.
EXTENDED-STAY HOTEL	a hotel designed for guests staying for periods of time longer than a few nights and tending to have a higher proportion of suites than normal hotels, e.g. Staybridge Suites, Candlewood Suites.	ROYALTY RATE	the percentage of room revenue that a franchisee pays to the brand owner for use of the brand name.
FRANCHISEE	operator who uses a brand under licence from the brand owner (e.g. InterContinental Hotels).	SPECIAL ITEMS	items which are disclosed separately because of their size or incidence.
FRANCHISOR	brand owner (e.g. InterContinental Hotels) who licenses brands for use by other operators.	SUBSIDIARY UNDERTAKING	a company in which the Group holds an equity stake and over which it exercises control.
GEARING	net debt expressed as a percentage of shareholders' equity.	SYSTEM SIZE	the number of hotels/rooms owned, managed or franchised by InterContinental Hotels.
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.	TOTAL SHAREHOLDER RETURN (TSR)	the theoretical growth in value of a shareholding over a period, by reference to the beginning and ending share price, and assuming that gross dividends, including special dividends, are reinvested to purchase additional units of the equity.
HEDGING	the reduction of risk, normally in relation to foreign currency or interest rate movements, by making offsetting commitments.	UPSCALE HOTEL	a four/five star full-service hotel characterised by superior service, e.g. InterContinental, Crowne Plaza.
HOLIDEX FEES	charges to hotels under management and franchise agreements for the use of Holidex, IHG's proprietary reservation system.	UK GAAP	United Kingdom generally accepted accounting practice.
IFRS	International Financial Reporting Standards.	US GAAP	accounting principles generally accepted in the United States.
INTEREST RATE SWAP	an agreement to exchange fixed for floating interest rate streams (or vice versa) on a notional principal.	WEIGHTED AVERAGE EXCHANGE RATE	the average of the monthly exchange rates, weighted by reference to monthly operating profit.
		WORKING CAPITAL	the sum of inventories, receivables and payables of a trading nature, excluding financing items such as corporate taxation.

shareholder profile

Shareholder profile as at 31 December 2005 by type of holding	Number of shareholders	Percentage of total shareholders	Ordinary shares	Percentage of total issued share capital
Category of holdings				
Private individuals	71,400	93.46	29,540,234	6.83
Nominee companies	4,281	5.65	392,075,180	90.57
Limited and public limited companies	438	0.57	4,306,424	0.99
Other corporate bodies	251	0.32	3,342,260	0.77
Pension funds, insurance companies and banks	23	0.00	3,672,247	0.84
Total	76,393	100	432,936,345	100

Range of holdings	Number of shareholders	Percentage of total shareholders	Ordinary shares	Percentage of total issued share capital
1 – 199	42,273	55.35	2,959,078	0.68
200 – 499	16,283	21.31	5,289,260	1.22
500 – 999	9,267	12.13	6,480,716	1.50
1,000 – 4,999	7,237	9.47	13,537,390	3.13
5,000 – 9,999	444	0.58	3,076,776	0.71
10,000 – 49,999	417	0.55	9,522,307	2.20
50,000 – 99,999	107	0.14	7,677,385	1.77
100,000 – 499,999	223	0.29	52,397,366	12.10
500,000 – 999,999	62	0.08	45,151,847	10.43
1,000,000 – highest	80	0.10	286,844,220	66.26
Total	76,393	100	432,936,345	100

Shareholder profile as at 31 December 2005 by geographical location

Country/Jurisdiction	Percentage of issued share capital
England & Wales	59.51
Scotland	9.78
Rest of Europe	8.14
USA (including ADRs)	19.05
Japan	1.57
Rest of World	1.95
Total	100

Note: The geographical distribution presented above is based on an analysis of shareholdings of 150,000 or above where geographical ownership is known. These holdings account for 87.4% of total issued share capital.

FORWARD-LOOKING STATEMENTS

Both the Annual Review and Summary Financial Statement 2005 and the Annual Report and Financial Statements 2005 contain certain forward-looking statements as defined under US legislation (Section 21E of the Securities Exchange Act of 1934) with respect to the financial condition, results of operations and business of InterContinental Hotels Group and certain plans and objectives of the Board of Directors of InterContinental Hotels Group with respect thereto. Such statements include, but are not limited to, statements made in the Chairman's Statement and the Chief Executive's Review. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', or other words of similar meaning. These statements are based on assumptions and assessments made by InterContinental Hotels Group's management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate.

By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty. There are a number of factors that could cause actual results and developments to differ materially from those

expressed in, or implied by, such forward-looking statements, including, but not limited to: the effect of political and economic developments; the risks involved with the Group's reliance on the reputation of its brands and protection of intellectual property rights; the risks relating to identifying, securing and retaining management and franchise agreements; the ability to recruit and retain key personnel; the risks involved with the Group's reliance on technologies and systems and with developing and employing new technologies and systems; the Group's ability to maintain adequate insurance; the future balance between supply and demand for the Group's hotels; events that adversely impact domestic or international travel, including terrorist incidents and epidemics such as Severe Acute Respiratory Syndrome (SARS); increased use of intermediary reservation channels; the lack of selected acquisition opportunities or the risks of litigation; risks associated with the Group's ability to borrow and satisfy debt covenants; compliance with data privacy regulations; and risks associated with funding the defined benefits under its pension schemes.

The main factors that could affect the business and financial results are described in the Operating and Financial Review of the Annual Report and Financial Statements 2005 and also in any Annual Report of InterContinental Hotels Group PLC on Form 20-F for 2005 and for any subsequent year.

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