



InterContinental Hotels Group

Annual report and financial statements 2006

Seeing the world
through your eyes...



Highlights

Continuing operating profit* up 16% from £173m to £201m.

Operating profit of £258m, including other operating income and expenses of £27m.

9.8% growth in RevPAR⁺.

Total gross revenue[†] from all hotels in IHG system up 9% to £8.3bn.

Franchised operating profit up 10% to £235m.

Managed operating profit up 27% to £85m.

Adjusted continuing earnings per share up 67% from 22.5p to 37.5p. Basic earnings per share of 104.1p.

Further £850m return of funds announced, taking total funds returns to £3.6bn since March 2004.

Final dividend up 24% to 13.3p.

Total 2006 dividend[§] up 20% to 18.4p.

Room count up by 18,713 rooms to 556,246.

Expect to exceed 50,000 to 60,000 net rooms growth target.

Signings up 47% to 102,774 rooms.

Development pipeline up by 49,479 rooms to 157,991.

* Operating profit before other operating income and expenses.

⁺ Room revenue divided by the number of room nights available.

[†] Total room revenue from franchised hotels and total hotel revenue from managed, owned and leased hotels (not revenue attributable to IHG, as it is derived mainly from hotels owned by third parties).

[§] Excludes special interim dividend paid in June 2006.

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Chairman's statement

2006 was the first full year of the new strategy for the business launched by Chief Executive, Andrew Cosslett, in 2005. It has been a year where the change of focus in our business has delivered strong results, and the growth potential of the business has been demonstrated.

Restructuring We continued to reduce the number of hotels we own during the year. We sold 31 hotels in Continental Europe, generating proceeds of £680 million before transaction costs, and retained all of them within our brand family under long term contracts. The proceeds from hotels sold since April 2003 is now £3 billion, leaving us owning approximately £1 billion (net book value) of hotels real estate.

Shareholder returns We made further returns to shareholders during the year, bringing the total returned since March 2004 to over £2.7 billion. A further £31 million remains to be returned through our ongoing share buyback programmes.

We are pleased to have announced a further £850 million return of funds, comprising a £150 million share buyback and a £700 million special dividend, with a proposed share consolidation. The special dividend payment and share consolidation are due to be completed by the end of June 2007, and further details will be sent to shareholders in due course.

Dividend increase As we come to the end of restructuring our capital base, the Board is recommending a significant increase to the final dividend for 2006, taking it to 13.3p per share. This will give a full year dividend of 18.4p, 20 per cent higher than in 2005. Subject to approval at the Annual General Meeting, the final dividend will be paid on 8 June 2007 to shareholders registered on 23 March 2007.

Board Richard Hartman, President of our Europe, Middle East and Africa region, (EMEA) announced during 2006 that he would retire in September 2007, after eight years with the Group. Richard has done an outstanding job leading EMEA during a period of rapid change. Sir Howard Stringer has also stood down as a Non-Executive Director, after three years on the Board. Howard provided wise counsel through IHG's early years. We thank them both for their service and wish them well for the future.

Outlook The results we achieved in 2006 were the product of exceptional work by our people across the Group. We have a clear position as the most owner-focused global hotel company, with a deep understanding of what guests want from our hotel brands. This will allow us to offer our employees and business partners attractive growth opportunities and create further value for shareholders. Accordingly, we continue to feel confident about the prospects for the Group.



David Webster

David Webster Chairman

Chief Executive's review

2006 was a year of excellent growth for IHG. The hotel industry as a whole grew strongly, benefiting from trends that will drive demand for hotel rooms for many years. IHG, through its strong brand family, powerful operating systems that drive demand to our hotels and unmatched global position, outperformed the industry.

Strong trading Continuing operating profit* was up 16 per cent, from £173 million to £201 million. Adjusted continuing earnings per share rose 67 per cent, from 22.5p to 37.5p. Global revenue per available room (RevPAR) – the industry's main performance measure – rose by 9.8 per cent, mainly driven by rate increases. Our RevPAR growth outperformed the market in each of our seven key profit generating business areas around the world.

Increased rooms growth We made good progress against the three year target we set in 2005 of adding 50,000 to 60,000 net rooms, reaching 125 hotels in China, and adding 15 to 25 InterContinental by the end of 2008. We expected to add in the region of 10,000 net rooms in 2006, and in fact added 18,713. This included 4,937 rooms from IHG's joint venture in Japan with All Nippon Airlines. This deal makes us the largest international hotel operator in Japan, the world's second largest hotel market, and we will be building on this position over the coming years. We further strengthened our market leading position in China. InterContinental expanded rapidly with 15 hotels opened in the year. Overall, during 2006 we signed deals for nearly 103,000 hotel rooms, a 47 per cent increase on 2005. Our pipeline of rooms, already the largest in the industry, increased 46 per cent in the year and now stands at almost 158,000 rooms.

Given this strong level of openings and signings, we now expect to exceed our net rooms growth target by the end of 2008.

Strengthening our business We have been developing plans to help us be better at what we do. During the year we undertook what we believe to be the biggest market research project involving hotels. We have looked inside and outside the industry for examples of best practice in franchising so that we can take what is already one of IHG's existing strengths to a new level. We now have a deeper insight into how our hotel brands can be improved so that they address our guests' needs more effectively. The excellent brand performance in 2006 is very encouraging and suggests that we are on the right track. These insights and learnings are proving effective in helping us to achieve IHG's business objectives and position us well for stronger performance in the years to come.

In the pages that follow we review the operational and financial performance of the Group and our different regions and demonstrate how we are gearing up for growth. Growth is our goal and we are increasingly well placed to achieve it. We have a clear strategy, strong position and good people. Not surprisingly, our outlook remains positive.



Andrew Cosslett Chief Executive

*Operating profit before other operating income and expenses.



Operating and financial review

In this section we present an overview of our business, including our strategy, activities, resources and operating environment. We also refer to significant developments and present our operating and financial performance for 2006.

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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 2006.

Business overview

Market and competitive environment

IHG operates in the global hotel market which has an estimated total room capacity of 18.8 million rooms. Room capacity 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 more of these markets 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 21%. The Group is the largest of these companies by room numbers with a 3% market share. The major competitors in this market include other large 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. For example, Mintel, a market research company, 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 working with a group such as IHG which can offer a portfolio of brands to suit the different real estate opportunities an owner may have. Furthermore, hotel ownership is increasingly being separated from hotel operations, encouraging hotel owners to use third parties such as IHG to manage or franchise their hotels.

Figure 1

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

Source: Mintel (latest data available).

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

- change in demographics – as the population ages and becomes wealthier, increased leisure time and income encourages more travel and hotel visits;
- increase in travel volumes as low cost airlines grow rapidly;
- globalisation of trade and tourism;
- increase in affluence and freedom to travel within the Chinese middle class; and
- increase in the preference for branded hotels amongst consumers.

Potential negative trends include 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 partly protected from supply pressure due to its model of third party ownership of hotels under IHG management and franchise contracts.

Strategy

IHG owns, operates and franchises hotels, with its brands being represented in nearly 100 countries and territories around the world. 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 largest markets and segments where scale really counts. During 2006, IHG initiated a number of research projects, the results of which will strengthen the Group's strategy with respect to brand development, franchising operations and growth opportunities.

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 at least 50,000 to 60,000 net rooms by the end of 2008 (starting from 537,000 in June 2005), with specific growth targets for the InterContinental brand and the key Chinese market; and
- out-performance of total shareholder return against a competitor set.

Growth is planned to be attained predominantly from managing and franchising rather than owning hotels. Nearly 550,000 rooms operating under Group brands are managed or franchised (see figure 2). The managed and franchised model is attractive because it enables the Group to achieve its goals with limited capital investment. With a relatively fixed cost base, such growth yields high incremental margins for IHG, and is primarily how the Group has grown recently. For this reason, the Group has executed a disposal programme for most of its owned hotels, releasing capital and enabling returns of funds to shareholders.

A key characteristic of the managed and franchised business model on which the Group has focused is that it generates more cash than is required for investment in the business, with a high return on capital employed. Currently, 92% of continuing earnings before interest, tax and regional and central overheads is derived from managed and franchised operations.

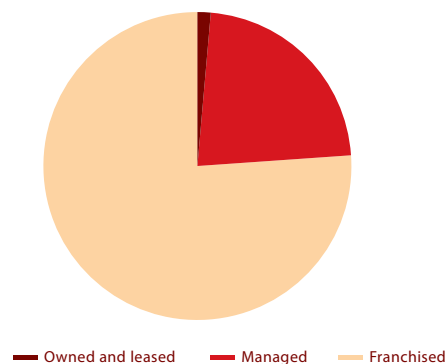
The Group aims to deliver its growth targets through the strongest operating system in the industry which includes:

- a strong brand portfolio across the major markets, including two leading brands: InterContinental and Holiday Inn;
- market coverage – a presence in nearly 100 countries and territories;
- scale – 3,741 hotels, 556,246 rooms and 130 million guest stays per annum;
- IHG global reservation channels delivering \$5.7bn of global system room revenue in 2006, \$2.0bn from the internet;
- a loyalty programme, Priority Club Rewards, contributing \$4.4bn of global system room revenue; and
- a strong web presence – holidayinn.com is the industry's most visited site, with around 75 million total site visits per annum.

With a clear target for rooms growth and a number of brands with 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 at 31 December 2006



Business relationships

IHG maintains effective business relationships across all aspects of its operations. However, the Group's operations are not dependent upon any single customer, supplier or hotel owner due to the extent of its brands, market segments and geographical coverage. For example, the largest hotel owner controls less than 4% of the Group's total room count.

To promote effective owner relationships, the Group's management meets with owners of IHG branded hotels on a regular basis. In addition, IHG has an important relationship with the International Association of Holiday Inns (IAHI). The IAHI is an independent worldwide association for owners of the Crowne Plaza, Holiday Inn, Holiday Inn Express, Hotel Indigo, Staybridge Suites and Candlewood Suites brands. IHG and the IAHI work together to support and facilitate the continued development of IHG's brands and systems.

Many jurisdictions and countries regulate the offering of franchise agreements and recent trends indicate an increase in the number of countries adopting franchise legislation. As a significant percentage of the Group's revenues is derived from franchise fees, the Group's continued compliance with franchise legislation is important to the successful deployment of the Group's strategy.

Operating and financial review

Significant developments

Figure 3

Asset disposal programme detail	Number of hotels	Proceeds	Net book value
Disposed since April 2003	174	£3.0bn	£2.9bn
Remaining owned and leased hotels	25	–	£1.0bn

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
£996m capital return	Paid July 2005	£996m	£996m	Nil
Second £250m share buyback	Completed in 2006	£250m	£250m	Nil
£497m special dividend	Paid June 2006	£497m	£497m	Nil
Third £250m share buyback	Under way	£250m	£219m	£31m
£700m special dividend	Quarter 2 2007	£700m	–	£700m
£150m share buyback	Yet to commence	£150m	–	£150m
Total		£3,594m	£2,713m	£881m

Investment with All Nippon Airways (ANA)

In December 2006, IHG invested £10m for a 75% stake in a hotel joint venture with ANA, IHG ANA Hotels Group Japan LLC (IHG ANA), increasing IHG's portfolio in Japan from 12 hotels (3,686 rooms) to 25 hotels (8,623 rooms). As part of the transaction, ANA has signed 15 year management contracts with IHG ANA for its 13 owned and leased hotels (4,937 rooms).

Key owned and leased assets

In November 2006, IHG reopened the InterContinental London Park Lane following the substantial completion of a major refurbishment and opened the newly built InterContinental Boston.

Asset disposal programme

During 2006, IHG achieved further progress with its asset disposal programme, including:

- the sale of 24 hotels in Continental Europe to a subsidiary of Westbridge Hospitality Fund LP for £240m, before transaction costs. IHG retained a 15 year franchise contract on each of the hotels; and
- the sale of seven European InterContinental hotels to Morgan Stanley Real Estate Funds (MSREF) for £440m, before transaction costs. IHG retained a 30 year management contract on each of the hotels, with two 10 year renewals at IHG's discretion. The long-term contracts ensure continued representation of the InterContinental brand in key European markets.

These transactions support IHG's continued strategy of growing its managed and franchised business whilst reducing asset ownership. Since April 2003, 174 hotels with a net book value of £2.9bn have been sold, generating aggregate proceeds of £3.0bn. Of these 174 hotels, 156 have remained in the IHG system through either franchise or management agreements.

Return of funds programme

In the year, IHG paid a £497m special dividend, completed a second £250m share buyback and substantially completed a third £250m share buyback. Since March 2004, IHG has returned £2.7bn to shareholders.

On 20 February 2007, a further £850m return of funds was announced, comprising a £700m special dividend with share consolidation and a £150m share buyback.

Management and organisation

In 2006, there were no significant changes to the management and organisation of the Group. During the year, the Group focused on realising benefits from the prior year global realignment of functions, including Finance, Human Resources and Information Technology.

The following announcements relating to members of the Executive Committee were made during 2006:

- the appointment of Tom Conophy in January 2006 as Chief Information Officer (CIO), a new position created to develop the global technology strategy across IHG's brands, leveraged by his 25 years of experience in the Information Technology (IT) industry; and
- the retirement of Richard Hartman, President, EMEA, effective from September 2007.

Group performance

	12 months ended 31 December		
	2006 £m	2005 £m	% change
Summary results			
Revenue:			
Americas	433	384	12.8
EMEA	206	200	3.0
Asia Pacific	111	87	27.6
Central	55	42	31.0
Continuing operations	805	713	12.9
Discontinued operations	155	1,197	(87.1)
	960	1,910	(49.7)
Operating profit:			
Americas	217	186	16.7
EMEA	36	31	16.1
Asia Pacific	29	21	38.1
Central	(81)	(65)	24.6
Continuing operations	201	173	16.2
Discontinued operations	30	166	(81.9)
Operating profit before other operating income and expenses	231	339	(31.9)
Other operating income and expenses	27	(22)	–
Operating profit	258	317	(18.6)
Interest	(11)	(33)	(66.7)
Profit before tax	247	284	(13.0)
Analysed as:			
Continuing operations	217	127	70.9
Discontinued operations	30	157	(80.9)
Earnings per ordinary share:			
Basic	104.1p	95.2p	9.3
Adjusted	42.9p	38.2p	12.3
Adjusted – continuing operations	37.5p	22.5p	66.7

Key performance indicators (KPIs)

In addition to the traditional profit measures, the management team at IHG monitor the Group and regional performance of the business through a range of financial and non-financial KPIs, the most significant of which include:

- total gross revenue – measure of the scale and reach of IHG's brands;
- revenue per available room (RevPAR) – measure of underlying hotel revenue with year-on-year performance being measured by the RevPAR movement against the prior year;
- hotel and room count – measure of the size of IHG's portfolio; and
- pipeline of hotels and rooms – measure of demand and growth potential for IHG's brands.

Data for the calculation of KPIs is provided from IHG and underlying hotel records.

The following section assesses IHG's KPIs in conjunction with the Group and regional trading performance. KPI definitions are included in the Glossary.

Group results

Revenue from continuing operations increased by 12.9% to £805m and continuing operating profit increased by 16.2% to £201m during the 12 months ended 31 December 2006. The growth was driven by a combination of strong industry fundamentals in all three of IHG's regions, RevPAR premiums to market for most of IHG's brands and continuing expansion in hotel and room count.

Including discontinued operations, total operating profit before other operating income and expenses decreased by 31.9% to £231m during 2006 as a result of asset disposals. Discontinued operations represent the results from operations that have been sold or are held for sale and where there is a co-ordinated plan to dispose of the operations under IHG's asset disposal programme. In this OFR, discontinued operations include owned and leased hotels in the US, UK, Continental Europe and Asia Pacific that have been sold or placed on the market from 1 January 2005, and the Britvic Group, disposed of by way of an initial public offering in December 2005.

With the weighted average US dollar exchange rate to sterling being similar to the rate in 2005 (2006 \$1.84: £1, 2005 \$1.83: £1), growth rates for results expressed in US dollars were similar to those in sterling. Continuing operating profit before other operating income and expenses was \$369m, ahead of 2005 by 16.8%. Including discontinued operations, operating profit before other income and expenses was \$424m, 31.5% lower than 2005.

Operating and financial review

Figure 5

Global hotel and room count at 31 December	Hotels		Rooms	
	2006	Change over 2005	2006	Change over 2005
Analysed by brand:				
InterContinental	148	11	49,599	3,337
Crowne Plaza	275	40	75,632	10,228
Holiday Inn	1,395	(40)	260,470	(7,346)
Holiday Inn Express	1,686	96	143,582	10,028
Staybridge Suites	97	10	10,953	1,038
Candlewood Suites	130	18	14,149	1,466
Hotel Indigo	6	3	893	396
Other	4	(3)	968	(434)
Total	3,741	135	556,246	18,713
Analysed by ownership type:				
Owned and leased	25	(30)	8,460	(7,025)
Managed	512	8	125,214	3,965
Franchised	3,204	157	422,572	21,773
Total	3,741	135	556,246	18,713

Global room count and pipeline

During 2006, the IHG global system (the number of hotels and rooms which are owned, leased, managed or franchised by the Group) increased by 135 hotels (18,713 rooms). The growth was driven by continued expansion in the US and Greater China (which includes the People's Republic of China, Hong Kong, Macau and Taiwan), together with the addition of IHG ANA (13 hotels, 4,937 rooms). Holiday Inn Express represented 71% of the net hotel growth, demonstrating strong market demand in the midscale, limited service sector. The net decline in the number of Holiday Inn hotels mainly reflects IHG's continued strategy to reinvigorate the Holiday Inn brand through the removal of lower quality, non-brand conforming hotels in the US.

At the end of 2006, the IHG pipeline (contracts signed for hotels and rooms yet to enter the IHG global system) totalled 1,241 hotels (157,991 rooms). In the year, the hotel and room pipeline increased by over 40% as a result of record levels of signings across all regions.

Total gross revenues

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. Total gross revenue is not revenue attributable to IHG, as it is derived mainly from hotels owned by third parties. Total gross revenue increased by 9.4% from \$13.9bn in 2005 to \$15.2bn in 2006, with strong growth levels achieved across all major brands (see figure 7).

Figure 6

Global pipeline at 31 December	Hotels		Rooms	
	2006	Change over 2005	2006	Change over 2005
Analysed by brand:				
InterContinental	36	9	13,211	3,858
Crowne Plaza	60	6	17,113	3,599
Holiday Inn	299	95	44,774	13,739
Holiday Inn Express	574	145	55,520	17,454
Staybridge Suites	120	41	12,605	4,410
Candlewood Suites	128	45	11,723	4,256
Hotel Indigo	24	16	3,045	2,163
Total	1,241	357	157,991	49,479
Analysed by ownership type:				
Owned and leased	-	(2)	-	(574)
Managed	139	41	41,648	13,843
Franchised	1,102	318	116,343	36,210
Total	1,241	357	157,991	49,479

Figure 7

Total gross revenues	12 months ended 31 December		
	2006 \$bn	2005 \$bn	% change
InterContinental	3.0	2.7	11.1
Crowne Plaza	2.3	2.0	15.0
Holiday Inn	6.3	6.0	5.0
Holiday Inn Express	3.0	2.6	15.4
Other brands	0.6	0.6	-
Total	15.2	13.9	9.4

Reservation systems and loyalty programme

IHG supports revenue delivery into its hotels through its global reservation channels and loyalty programme, Priority Club Rewards. In 2006, global system room revenue booked through IHG's reservation channels increased by 21% to \$5.7bn, and the proportion of IHG global system room revenue booked via IHG's reservation channels increased from 41% to 44%.

The IHG internet channel continued to show strong growth, with global system room revenue booked via the internet increasing by 18% to \$2.0bn, accounting for 16% of IHG global system room revenue (up from 14% in 2005).

Room revenue generated from Priority Club Rewards members (across all IHG channels) increased by 16% to \$4.4bn and represented 34% of IHG global system room revenue (up from 32% in 2005).

The Americas

	12 months ended 31 December		
	2006 \$m	2005 \$m	% change
Americas results			
Revenue:			
Owned and leased	211	195	8.2
Managed	143	118	21.2
Franchised	443	389	13.9
Continuing operations	797	702	13.5
Discontinued operations*	55	111	(50.5)
Total	\$m 852	813	4.8
Sterling equivalent	£m 463	445	4.0
Operating profit before other operating income and expenses:			
Owned and leased	26	25	4.0
Managed	50	36	38.9
Franchised	382	340	12.4
	458	401	14.2
Regional overheads	(59)	(62)	(4.8)
Continuing operations	399	339	17.7
Discontinued operations*	8	23	(65.2)
Total	\$m 407	362	12.4
Sterling equivalent	£m 221	198	11.6

*Discontinued operations are all owned and leased.

Revenue and operating profit from continuing operations increased by 13.5% to \$797m and 17.7% to \$399m respectively during 2006. Underlying trading performance across all ownership types was strong, although the pace of RevPAR growth achieved in the first half of the year was not maintained throughout the second half of the year.

Discontinued operations include the results of hotels sold during 2005 and 2006, together with four hotels currently on the market for disposal. Including discontinued operations, revenue grew 4.8% whilst operating profit increased by 12.4%.

Continuing owned and leased revenue increased by 8.2% to \$211m. Owned and leased InterContinental branded hotels achieved RevPAR growth in excess of 12% over 2005, driven by gains in both daily rates and occupancy levels (see figure 8). The owned and leased results were impacted, as expected, by a \$6m loss at the recently opened InterContinental Boston. Excluding this loss, the combined impact of RevPAR growth and operating efficiencies led to a 28% increase in operating profit from continuing owned and leased hotels.

Figure 8

Americas RevPAR movement on previous year	12 months ended 31 December 2006
Owned and leased (comparable):	
InterContinental	12.2%
Managed (comparable):	
InterContinental	10.1%
Crowne Plaza	14.1%
Holiday Inn	4.7%
Staybridge Suites	8.8%
Candlewood Suites	9.9%
Franchise (all hotels):	
Crowne Plaza	10.3%
Holiday Inn	7.6%
Holiday Inn Express	10.7%

Managed revenues increased by 21.2% to \$143m during the year as a result of strong underlying trading, restructured management agreements, an increased number of hotels under management contracts and the full year benefit of contracts negotiated during 2005 as part of the hotel disposal programme. RevPAR growth in the managed hotels was strong across most brands (see figure 8). Holiday Inn growth levels were impacted during the fourth quarter by hotel refurbishments (nine of 28 hotels). Managed revenues include \$80m (2005 \$70m) from properties that are structured, for legal reasons, as operating leases but with the same characteristics as management contracts.

Managed operating profit increased by 38.9% to \$50m including \$9m (2005 \$9m) from the managed properties held as operating leases and \$3m from the receipt of business interruption proceeds following hurricane damage in 2005. As a consequence of the 2005 hurricane season, ongoing insurance costs increased significantly, reducing managed operating profit in 2006 by an incremental \$3m.

Franchised revenue and operating profit increased by 13.9% to \$443m and 12.4% to \$382m respectively, driven by RevPAR growth of 9.2%, net room count growth of 4% and fees associated with record levels of signings. The RevPAR gains were achieved across all brands despite high prior year comparables (see figure 8). Holiday Inn Express and Crowne Plaza both reported double digit RevPAR growth, driven by higher daily rates.

The Americas regional overheads were favourably impacted during the year by lower claims in the Group-funded employee healthcare programme.

Operating and financial review

Figure 9

Americas hotel and room count at 31 December	Hotels		Rooms	
	2006	Change over 2005	2006	Change over 2005
Analysed by brand:				
InterContinental	49	4	16,525	1,197
Crowne Plaza	155	22	42,604	5,530
Holiday Inn	987	(40)	186,067	(8,937)
Holiday Inn Express	1,506	81	123,718	7,908
Staybridge Suites	97	10	10,953	1,038
Candlewood Suites	130	18	14,149	1,466
Hotel Indigo	6	3	893	396
Other	-	(2)	-	(295)
Total	2,930	96	394,909	8,303
Analysed by ownership type:				
Owned and leased	13	1	4,679	428
Managed	189	(19)	39,257	(6,063)
Franchised	2,728	114	350,973	13,938
Total	2,930	96	394,909	8,303

The Americas net hotel and room count grew by 96 hotels (8,303 rooms) to 2,930 hotels (394,909 rooms) [see figure 9]. The net growth includes openings of 222 hotels (26,613 rooms) led by demand for Holiday Inn Express 128 hotels (11,155 rooms). Although the regions' net growth was predominantly achieved in the US markets, Mexico represented over 10% of the expansion. The net growth also included removals of 126 hotels (18,310 rooms), of which Holiday Inn hotels represented 56% (74% of rooms).

Figure 10

Americas pipeline at 31 December	Hotels		Rooms	
	2006	Change over 2005	2006	Change over 2005
Analysed by brand:				
InterContinental	6	(1)	2,935	(770)
Crowne Plaza	24	1	5,839	1,227
Holiday Inn	212	59	26,566	7,525
Holiday Inn Express	503	114	43,550	10,587
Staybridge Suites	115	36	12,027	3,832
Candlewood Suites	128	45	11,723	4,256
Hotel Indigo	24	16	3,045	2,163
Total	1,012	270	105,685	28,820
Analysed by ownership type:				
Owned and leased	-	(2)	-	(574)
Managed	14	1	3,710	(231)
Franchised	998	271	101,975	29,625
Total	1,012	270	105,685	28,820

The Americas pipeline continued to achieve record growth levels and totalled 1,012 hotels (105,685 rooms) at 31 December 2006. Signing levels outpaced prior year as demand for the new Holiday Inn prototype and Holiday Inn Express continued to accelerate throughout 2006. During the year 61,673 room signings were completed, compared with 49,765 room signings in 2005. This level of growth demonstrates strong demand for IHG brands and represents a key driver of future profitability.

Europe, Middle East and Africa (EMEA)

	12 months ended 31 December		
	2006 £m	2005 £m	% change
EMEA results			
Revenue:			
Owned and leased	100	110	(9.1)
Managed	71	55	29.1
Franchised	35	35	-
Continuing operations	206	200	3.0
Discontinued operations*	125	411	(69.6)
Total	£m 331	611	(45.8)
Dollar equivalent	\$m 608	1,115	(45.5)
Operating profit before other operating income and expenses:			
Owned and leased	(5)	(5)	-
Managed	37	31	19.4
Franchised	24	26	(7.7)
	56	52	7.7
Regional overheads	(20)	(21)	(4.8)
Continuing operations	36	31	16.1
Discontinued operations*	26	73	(64.4)
Total	£m 62	104	(40.4)
Dollar equivalent	\$m 114	189	(39.7)

*Discontinued operations are all owned and leased.

Revenue from continuing operations of £206m was 3.0% ahead of 2005 whilst continuing operating profit before other income and expenses increased by 16.1% to £36m. Including discontinued operations, revenue and operating profit decreased by 45.8% and 40.4% respectively, reflecting the impact of hotels sold and converted to management and franchise contracts over the past two years.

In the owned and leased estate, continuing revenues declined by £10m to £100m as a result of the major refurbishment at the InterContinental London Park Lane. The hotel reopened in November 2006 following a 13 month closure and is expected to be fully operational by Spring 2007. Excluding the impact of the InterContinental London Park Lane in 2005 and 2006, the continuing owned and leased operating profit increased by £5m, driven by enhanced trading performance at the InterContinental Paris Le Grand where RevPAR growth was more than 25% over 2005.

Figure 11

EMEA RevPAR movement on previous year

	12 months ended 31 December 2006
Owned and leased (comparable):	
InterContinental	21.8%
All ownership types*:	
UK	6.0%
Continental Europe	9.0%
Middle East	19.0%

*Includes comparable owned, leased and managed hotels and all franchised hotels.

Figure 12

EMEA hotel and room count at 31 December	Hotels		Rooms	
	2006	Change over 2005	2006	Change over 2005
Analysed by brand:				
InterContinental	66	1	21,423	(50)
Crowne Plaza	68	4	16,440	409
Holiday Inn	317	(3)	50,628	(316)
Holiday Inn Express	172	11	18,109	1,138
Total	623	13	106,600	1,181
Analysed by ownership type:				
Owned and leased	10	(31)	3,088	(7,453)
Managed	174	(2)	40,675	978
Franchised	439	46	62,837	7,656
Total	623	13	106,600	1,181

Figure 13

EMEA pipeline at 31 December	Hotels		Rooms	
	2006	Change over 2005	2006	Change over 2005
Analysed by brand:				
InterContinental	10	1	2,549	170
Crowne Plaza	15	3	3,667	790
Holiday Inn	54	26	7,818	2,952
Holiday Inn Express	59	22	7,445	3,289
Staybridge Suites	5	5	578	578
Total	143	57	22,057	7,779
Analysed by ownership type:				
Managed	39	10	7,689	1,194
Franchised	104	47	14,368	6,585
Total	143	57	22,057	7,779

Managed revenues and operating profit increased by 29.1% to £71m and 19.4% to £37m respectively. The growth was driven by the impact of management contracts negotiated in 2005 and 2006 as part of the hotel disposal programme in the UK and Europe, together with strong RevPAR growth in key regions including Continental Europe and the Middle East (see figure 11).

Franchised revenue of £35m was in line with 2005 revenues, whilst operating profit decreased by £2m to £24m. The prior year included £7m in liquidated damages for the termination of franchise contracts in South Africa. Excluding the impact of this, franchised operating profit increased by 26.3% as a result of strong RevPAR growth across the UK and Continental Europe and increased room count. The increased room count was driven by the negotiation of franchise contracts in Continental Europe as part of the hotel disposal programme and further expansion in the region.

During 2006, EMEA hotel and room count grew by 13 hotels (1,181 rooms). The net growth included the opening of 31 hotels (4,823 rooms) and the removal of 18 hotels (3,642 rooms), including exits on a limited number of managed hotels, as agreed at the time of the UK portfolio disposal in May 2005.

The pipeline in EMEA increased by 57 hotels (7,779 rooms) to 143 hotels (22,057 rooms) (see figure 13). The growth includes a record level of 13,321 room signings, driven by demand for Holiday Inn and Holiday Inn Express in the UK, Continental Europe and South Africa, and for all brands in the Middle East and Russia.

Operating and financial review

Asia Pacific

Asia Pacific results	12 months ended 31 December		
	2006 \$m	2005 \$m	% change
Revenue:			
Owned and leased	131	108	21.3
Managed	65	45	44.4
Franchised	8	6	33.3
Continuing operations	204	159	28.3
Discontinued operations*	-	98	-
Total	\$m 204	257	(20.6)
Sterling equivalent	£m 111	141	(21.3)
Operating profit before other operating income and expenses:			
Owned and leased	31	20	55.0
Managed	39	29	34.5
Franchised	5	5	-
	75	54	38.9
Regional overheads	(23)	(15)	53.3
Continuing operations	52	39	33.3
Discontinued operations*	-	20	-
Total	\$m 52	59	(11.9)
Sterling equivalent	£m 29	32	(9.4)

*Discontinued operations are all owned and leased.

Revenue and operating profit from continuing operations increased by 28.3% to \$204m and 33.3% to \$52m respectively during 2006. Including discontinued operations, revenue and operating profit declined by 20.6% and 11.9% respectively, reflecting the sale of 10 owned and leased hotels in Australasia and Fiji during 2005.

Continuing owned and leased operating profit increased by 55.0% to \$31m driven by trading at the InterContinental Hong Kong which achieved rate-led RevPAR growth of over 30.0%. The hotel also benefited from a rooms refurbishment programme and the prior year repositioning of its food and beverage operations.

The managed estate achieved revenue growth of 44.4%, increasing from \$45m to \$65m, due to the retention of management contracts on the 10 owned and leased hotels sold in 2005 combined with strong underlying trading in Greater China where comparable RevPAR increased by 12.1% over 2005.

Figure 14

Asia Pacific hotel and room count at 31 December	Hotels		Rooms	
	2006	Change over 2005	2006	Change over 2005
Analysed by brand:				
InterContinental	33	6	11,651	2,190
Crowne Plaza	52	14	16,588	4,289
Holiday Inn	91	3	23,775	1,907
Holiday Inn Express	8	4	1,755	982
Other	4	(1)	968	(139)
Total	188	26	54,737	9,229
Analysed by ownership type:				
Owned and leased	2	-	693	-
Managed	149	29	45,282	9,050
Franchised	37	(3)	8,762	179
Total	188	26	54,737	9,229

Figure 15

Asia Pacific pipeline at 31 December	Hotels		Rooms	
	2006	Change over 2005	2006	Change over 2005
Analysed by brand:				
InterContinental	20	9	7,727	4,458
Crowne Plaza	21	2	7,607	1,582
Holiday Inn	33	10	10,390	3,262
Holiday Inn Express	12	9	4,525	3,578
Total	86	30	30,249	12,880
Analysed by ownership type:				
Managed	86	30	30,249	12,880
Total	86	30	30,249	12,880

Regional overheads increased by \$8m to \$23m. The increase reflects infrastructure and development costs including additional headcount, office facility and IT costs, all associated with ongoing expansion in the region.

Net hotel and room count in Asia Pacific increased by 26 hotels (9,229 rooms) (see figure 14). The net growth includes 14 hotels (3,628 rooms) in Greater China reflecting continued expansion in one of IHG's strategic markets and 13 hotels (4,937 rooms) in Japan that joined the system as part of the IHG ANA transaction.

The pipeline in Asia Pacific increased by 30 hotels (12,880 rooms) to 86 hotels (30,249 rooms). The substantial growth indicates the demand for IHG's brands in the Chinese market where signings of 16,445 rooms were more than double 2005 signings.

Central

	12 months ended 31 December		
	2006 £m	2005 £m	% change
Central results			
Revenue	55	42	31.0
Gross central costs	(136)	(107)	27.1
Net central costs	£m (81)	(65)	24.6
Dollar equivalent	\$m (149)	(118)	26.3

Net central costs increased by £16m to £81m and included significant investment in new global research, designed to enable higher quality brand development and enhance IHG's franchising capability; the increase also included higher IT infrastructure costs.

Corporate information

Other operating income and expenses

Other operating income and expenses of £27m includes the gain on the sale of the Group's investment in FelCor Lodging Trust, Inc.

Other operating income and expenses are treated as special items by reason of their size or incidence and are excluded from the calculation of adjusted earnings per share in order to provide a more meaningful comparison of performance.

Net financing costs

Net financing costs decreased from £33m in 2005 to £11m in 2006, primarily as a result of significantly lower average debt levels in the year (£92m in 2006 compared with £700m in 2005). Financing costs included £10m (2005 £5m) of interest costs associated with Priority Club Rewards where interest is charged on the accumulated balance of cash received in advance of the redemption points awarded. The increase over 2005 arises from growth in the scheme membership and higher interest rates. Financing costs in 2006 also included £4m in respect of the InterContinental Boston finance lease. Prior year costs included £9m in respect of the discontinued Soft Drinks business.

Taxation

The effective rate of tax on profit before tax, excluding the impact of special items, was 24%. By also excluding the impact of prior year items, which are included wholly within continuing operations, the equivalent tax rate would be 36%. This rate is higher than the UK statutory rate of 30% due mainly to overseas profits (predominantly in the US) being subject to statutory rates higher than the UK statutory rate, unrelieved losses and other disallowable expenses. The equivalent effective rates for 2005 were 29% and 38% respectively.

Taxation within special items totalled a credit of £94m (2005 £8m credit). This represented, primarily, 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 2006, taxation special items, in addition to such provision releases, included £12m for the recognition of a deferred tax asset in respect of tax losses.

Net tax paid in 2006 totalled £49m (2005 £91m) including £6m in respect of disposals.

Gain on disposal of assets

The gain on disposal of assets, net of related tax, totalled £117m in 2006 and primarily comprised the gain on the sale of seven InterContinental hotels to MSREF.

Earnings

Basic earnings per share in 2006 were 104.1p, compared with 95.2p in 2005. Adjusted earnings per share were 42.9p, against 38.2p in 2005. Adjusted continuing earnings per share were 37.5p, 66.7% up on last year.

Dividends

The Board has proposed a final dividend per share of 13.3p; with the interim dividend of 5.1p, the normal dividend for 2006 will total 18.4p.

Share price and market capitalisation

The IHG share price closed at 1262.0p on 31 December 2006, up from 839.5p on 31 December 2005. The market capitalisation of the Group at the year end was £4.5bn.

Cash flow

The net movement in cash and cash equivalents in the 12 months to 31 December 2006 was an outflow of £152m. This included net cash inflows from operating activities of £230m, net cash inflows from investing activities of £620m and net cash outflows from financing activities of £1,002m.

Proceeds from the disposal of hotels and other financial assets totalled £744m.

Capital expenditure totalled £124m and included a major refurbishment at the InterContinental London Park Lane and the completion of a rooms refurbishment programme at the InterContinental Hong Kong.

Cash outflows associated with shareholder returns during the year included a special dividend of £497m and share buybacks of £260m.

Capital structure and liquidity management

Net debt at 31 December 2006 was £134m (see figure 16). In November 2006, the InterContinental Boston opened; this hotel is operated under a finance lease and the lease commitment of £97m is therefore included within Group borrowings.

Gearing (net debt expressed as a percentage of IHG shareholders' equity) at 31 December 2006 was 20%.

Operating and financial review

Figure 16

Net debt at 31 December	2006 £m	2005 £m
Borrowings (including derivatives):		
Sterling	102	-
US Dollar	282	220
Euro	101	488
Other	48	71
Cash (including derivatives)	(403)	(686)
	130	93
Excluding fair value of derivatives (net)	4	(5)
Net debt	134	88
Average debt levels	92	700

Figure 17

Facilities at 31 December	2006 £m	2005 £m
Committed	1,157	1,163
Uncommitted	39	14
Total	1,196	1,177

Medium and long-term borrowing requirements at 31 December 2006 were met through a £1.1bn Syndicated Bank Facility which matures in November 2009. Short-term borrowing requirements were principally met from drawings under committed and uncommitted bilateral loan facilities. At the year end, the Group had £944m of committed facilities available for drawing.

The Syndicated Bank Facility 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.

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

The US dollar is the predominant currency of the Group's revenues and cash flows and 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, the Group matches the currency of its debt (either directly or via derivatives) to the currency of its net assets, whilst maximising the amount of US dollars borrowed. 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 for 2006 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.

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 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.

Figure 18

Interest risk profile of gross debt for major currencies (including derivatives) at 31 December	2006 %	2005 %
At fixed rates	53	36
At variable rates	47	64

Pensions

The Group operates two main schemes, the InterContinental Hotels UK Pension Plan and the US-based InterContinental Hotels Pension Plan. Including the unfunded element of the Plans, the accounting deficits at 31 December 2006 were £29m and £33m respectively.

Following the 2006 actuarial review of the UK Pension Plan, the Group has agreed with the Plan Trustees to make a special contribution of £40m. The special contribution will be paid over three years with £20m in 2007 and £10m in each of 2008 and 2009. The defined benefit section of the UK Plan is generally closed to new members. The US Plan is closed to new members and pensionable service no longer accrues for current employee members.

Employees

IHG employed an average of 11,456 people worldwide in the year ended 31 December 2006.

The hospitality industry is a people-based business and as such the Group's HR strategy places great emphasis on the following:

- **Leadership** Strong leadership is central to IHG's aim of becoming one of the very best companies in the world. The Company's senior leadership programme involves the creation of development plans for top performers, supported by individual assessment and accredited business training and incorporates long range succession planning;
- **Development** Across the Group, development training is designed to increase the skills and knowledge of our employees wherever they work. This year IHG launched employee 'on-boarding programmes' to assist new employees, in addition to continued brand specific training and individual development and coaching;

- **Engaging employees** 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;
- **Rewarding achievement** Compensation and benefit programmes are designed to be market competitive and the Group recognises employees with appropriate individual or team based awards;
- **Pensions** The Group offers access to a comprehensive retirement savings plan in all the geographic areas in which it operates. IHG makes matching contributions and the plans provide various investment and currency options;
- **Health and safety** The Group-wide commitment to health and safety for guests and employees alike is detailed in the Corporate Social Responsibility section of the Annual Review and Summary Financial Statement 2006;
- **Equality of opportunity** 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 practical in the same or an alternative position;
- **Diversity** IHG benefits from the diversity of its employees, owners, business partners and guests. The Group regards diversity as a fundamental factor in its success in operating as a global organisation.

Information on the Winning Ways, IHG's recently developed core values and behaviours framework, can be found in the Annual Review and Summary Financial Statement 2006.

Corporate social responsibility (CSR)

IHG is committed to maintaining a strong culture of CSR and to meeting its global obligations as one of the world's leading international hotel businesses.

A comprehensive review of the Group's CSR strategy was carried out and a revised strategy was considered and approved by the Board in December 2006. The intention is to concentrate on the global environment and local communities to realise this ambition. IHG also made important organisational changes during the year and management is now working to integrate the CSR policies into the business. As a result of the significant work undertaken in 2006, IHG believes it is now well placed to make significant progress during 2007.

Further details can be found in the Annual Review and Summary Financial Statement 2006, and on the website www.ihg.com/corporate

Risk management

The Group is subject to a variety of risks which could have a negative impact on its performance and financial condition. 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 an ongoing process to identify significant business risks facing the Group. The Board also receives assurance from the internal audit and risk management functions that these risks are being appropriately managed, having regard to the balance of risk, cost and opportunity.

This section describes some of the risks that could materially affect the Group's business. The factors below should be considered in connection with any financial and forward-looking information in this OFR and the cautionary statements contained on page 95.

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

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

Any 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, some of which may be outside the Group's control, including commoditisation (whereby price/quality becomes relatively more important than brand identifications due, in part, to the increased prevalence of third party intermediaries), consumer preference and perception, 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, where the Group is unable to enforce adherence to its operating and quality standards, or the significant regulations applicable to hotel operations, pursuant to its management and franchise contracts, there may be further adverse impact upon 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 registration of trademarks and domain names. However, the laws of certain foreign countries in which the Group operates do not protect the Group's proprietary rights to the same extent as the laws in the US and the European Union. 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.

Operating and financial review

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 including, for example, the unwillingness of franchisees to support brand improvement initiatives. 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.

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

The Group is exposed to 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 reducing 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 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 sterling against the US dollar. As the Group's profits have become increasingly weighted towards North America, such fluctuations may have greater impact on the Group's reported results.

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 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 Severe Acute Respiratory Syndrome 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 is exposed to certain risks in relation to technology and systems

To varying degrees, the Group is reliant upon certain technologies and systems (including IT systems) for the running of its business, particularly those which are highly integrated with business processes. 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 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 due, in part, to the cyclical nature of the hotel industry, or other differences between planning assumptions and actual operating conditions. Reductions in room rates and occupancy levels would adversely impact the results of Group operations.

The Group may experience a lack of selected development 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 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 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:

- poor investment performance of pension fund investments which is substantially weighted towards global equity markets;
- long life expectancy (which will make pensions payable for longer and therefore more expensive to provide);
- 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
- 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 19 February 2007, being the last practicable date prior to publication of this document, the Group has agreed to make a special contribution to the UK Pension Plan of £40m over the next three years (as noted under the Pensions section on page 16). However, this action does not preclude the trustees from making further demands in respect of increases to contribution rates and funding levels.

The Board, senior management and their responsibilities

In this section we present our Board and senior management team, our governance processes and procedures, and our compliance with the codes and regulations to which we are committed. We also present details of Directors' remuneration in 2006.

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The Board of Directors

David Webster

Non-Executive Chairman*

Appointed Deputy Chairman and Senior Independent Director of InterContinental Hotels Group on the separation of Six Continents PLC in April 2003. Appointed Non-Executive Chairman on 1 January 2004. He is also Non-Executive Chairman of Makinson Cowell Limited, a capital markets advisory firm. He was formerly Chairman of Safeway plc and a Non-Executive Director of Reed Elsevier PLC. Chairman of the Nomination Committee. Age 62.

Andrew Cosslett

Chief Executive†

Appointed Chief Executive in February 2005. He joined the Group from Cadbury Schweppes plc where he was most recently President, Europe, Middle East & Africa. During his career at Cadbury Schweppes he held a variety of senior regional management and marketing roles in the UK and Asia Pacific. He also has over 11 years' experience in brand marketing with Unilever. He is Non-Executive Chairman of Duchy Originals Limited. Age 51.

Richard Solomons

Finance Director†

Qualified as a chartered accountant in 1985, followed by seven years in investment banking, based in London and New York. He joined the Group in 1992 and held a variety of senior finance and operational roles. Appointed Finance Director of the Hotels business in October 2002 in anticipation of the separation of Six Continents PLC in April 2003. Responsible for corporate and regional finance, Group financial control, asset management, strategy and corporate development, investor relations, tax and treasury. Age 45.

Richard Hartman

President, EMEA†

Has over 40 years' experience in the hotel industry including 30 years with Sheraton. He joined the Group in 1999 as Managing Director, Asia Pacific. Subsequently, as Managing Director, Europe, Middle East and Africa, he was appointed an Executive Director in April 2003. Responsible for the business development and performance of all the Hotel brands and properties in the EMEA region. He will retire from the Group in September 2007. Australian citizen. Age 61.

Stevan Porter

President, The Americas†

Previously 13 years with Hilton Corporation in a variety of senior management positions. He joined the Group in 2001 as Chief Operating Officer, The Americas. Subsequently, as President, The Americas, he was appointed an Executive Director in April 2003. Responsible for the business development and performance of all the Hotel brands and properties in The Americas region. Additionally, he has responsibility for the development and deployment of best practice in franchising, globally. US citizen. Age 52.

David Kappler

Senior Independent Non-Executive Director#

Appointed a Director and Senior Independent Director in June 2004. He is Non-Executive Chairman of Premier Foods plc and a Non-Executive Director of Shire plc. A qualified accountant and formerly Chief Financial Officer of Cadbury Schweppes plc until April 2004, he also served as a Non-Executive Director of Camelot Group plc. Chairman of the Audit Committee. Age 59.

Ralph Kugler

Non-Executive Director*

Appointed a Director in April 2003, he is President, Unilever Home and Personal Care, and joined the Boards of Unilever plc and Unilever NV in May 2005. He has held a variety of senior positions globally for Unilever and has experience of regional management in Asia, Latin America and Europe, with over 25 years' experience of general management and brand marketing. Age 50.

Jennifer Laing

Non-Executive Director*

Appointed a Director in August 2005, she is Associate Dean, External Relations at London Business School. A fellow of the Marketing Society and of the Institute of Practitioners in Advertising, she has over 30 years' experience in advertising including 16 years with Saatchi & Saatchi, to whom she sold her own agency. She also serves as a Non-Executive Director of Hudson Highland Group Inc., a US human resources company. Age 59.

Robert C Larson

Non-Executive Director†

Appointed a Director in April 2003, he is a Managing Director of Lazard Alternative Investments LLC and Chairman of Lazard Real Estate Partners, LLC. He is also Chairman of Larson Realty Group and Non-Executive Chairman of United Dominion Realty Trust Inc. and Commonwealth Atlantic Properties Inc. He served as a Non-Executive Director of Six Continents PLC (formerly Bass PLC) from 1996 until April 2003. US citizen. Age 72.

Jonathan Linen

Non-Executive Director†

Appointed a Director in December 2005, he was formerly Vice Chairman of the American Express Company, having held a range of senior positions including in New Product Development, Marketing and Sales and Travel Services throughout his career of over 35 years with American Express. A management development graduate of Harvard Business School, he also serves on the Board and Executive Committees of a number of US companies and Councils. US citizen. Age 63.

Sir David Prosser

Non-Executive Director#

Qualified actuary with over 40 years' experience in financial services. Appointed a Director in April 2003, he was formerly Group Chief Executive of Legal & General Group Plc. He is a Non-Executive Director of Investec plc and of Investec Limited, a Director of the Royal Automobile Club Limited and of Epsom Downs Racecourse Limited. Chairman of the Remuneration Committee. Age 62.

Other members of the Executive Committee

Richard Winter

Executive Vice President, Corporate Services,
General Counsel and Company Secretary^{†§}

Solicitor, qualified in 1973 with over 20 years' commercial law experience in private practice. He joined the Group in 1994 as Director of Group Legal and was appointed Company Secretary in 2000. Now responsible for corporate governance, corporate social responsibility, risk management, insurance, internal audit, data privacy, company secretariat and Group legal matters. Age 57.

Tom Conophy

Executive Vice President and Chief Information Officer^{†§}

Has over 26 years' experience in the IT industry, including management and development of new technology solutions within the travel and hospitality business. He joined the Group in February 2006 from Starwood Hotels & Resorts International where he held the position of Executive Vice President & Chief Technology Officer. Responsible for global technology, including IT systems and information management throughout the Group. US citizen. Age 46.

Peter Gowers

Executive Vice President and Chief Marketing Officer^{†§}

Has previous international experience in management consultancy, based in London and Singapore. He joined the Group in 1999 and was appointed Executive Vice President, Global Brand Services in January 2003. Appointed Chief Marketing Officer in 2005, he now has responsibility for worldwide brand management, reservations, e-commerce, global sales, relationship and distribution marketing and loyalty programmes. Age 34.

Patrick Imbardelli

President, Asia Pacific^{†§}

Has over 25 years' experience in the hotel industry including 12 years with Southern Pacific Hotels Corporation. He joined the Group in 2000 and was appointed Managing Director, Asia Pacific in January 2003. Responsible for the business development and performance of all the Hotel brands and properties in the Asia Pacific region. Italian citizen. Age 46.

Tracy Robbins

Executive Vice President, Global Human Resources^{†§}

Has over 21 years' experience in line and HR roles in service industries. She joined the Group in December 2005 from Compass Group PLC, a world leading food service company, where she was Group Human Resources Leadership & Development Director. Previously Group HR Director for Forte Hotels Group. Responsible for global talent management and leadership development, reward strategy and implementation. Age 43.

The Board of Directors and other members of the Executive Committee together comprise the IHG Senior Leadership Team.

While the Directors have certain specific legal and regulatory duties and responsibilities, they work with and rely on the detailed knowledge and experience of all the Executive Committee members to secure the effective running of the business.

* A Non-Executive Director and a member of the Nomination Committee

† A member of the Executive Committee

An independent Non-Executive Director and a member of the Audit, Remuneration and Nomination Committees

• An independent Non-Executive Director and a member of the Audit and Nomination Committees

‡ An independent Non-Executive Director and a member of the Remuneration and Nomination Committees

§ Not a main Board Director

Directors' report

The Directors present their report for the financial year ended 31 December 2006.

Activities of the Group

The principal activities of the Group are in hotels and resorts, with franchising, management, ownership and leasing interests in over 3,700 establishments, with over 556,000 guest rooms in nearly 100 countries and territories around the world.

Business review and future developments

The Directors' Report should be read in conjunction with the Chairman's Statement, the Chief Executive's Review and the Operating and Financial Review (OFR) on pages 2 to 19. These 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 2006, the Group substantially completed its hotels disposal programme, with the sale of 31 hotels in Continental Europe, details of which are provided in the OFR on page 8.

Return of shareholders' funds and share consolidation

In April 2006 the Company completed a £250m share repurchase programme and commenced a further £250m share repurchase programme which is substantially complete. Additionally, £497m was returned to shareholders on 22 June 2006 by way of a special interim dividend of 118p per share. This special dividend was accompanied by a consolidation of the Company's ordinary share capital on the basis of seven new ordinary shares for every eight existing ordinary shares, effective from 12 June 2006. The nominal value of the new shares is 11 $\frac{3}{4}$ p per share.

Results and dividends

The profit on ordinary activities before taxation was £247m. In addition to the special dividend referred to above, an interim dividend of 5.1p per share was paid on 5 October 2006. The Directors are recommending a final dividend of 13.3p per share to be paid on 8 June 2007 to shareholders on the Register at close of business on 23 March 2007. Total dividends relating to the year are expected to amount to £562m.

Future returns of shareholders' funds

The Directors intend to initiate a further £150m share repurchase programme as soon as practicable and to return a further £700m to shareholders during the second quarter of 2007 by way of a special interim dividend and, subject to shareholder approval, an accompanying share consolidation.

Share repurchases

During the year, 28,409,753 ordinary shares were purchased and cancelled at a cost of £258,353,705 (excluding transaction costs) under IHG's planned share repurchase programmes. Of these, 11,122,753 were 10p shares in the capital of the Company,

purchased at an average price of 911p per share and 17,287,000 were 11 $\frac{3}{4}$ p shares in the capital of the Company, purchased at an average price of 908p per share.

Shares purchased and cancelled represented approximately 8% of the issued share capital of the Company at the start of the year and were purchased and cancelled under the authorities granted by shareholders at an Extraordinary General Meeting held on 1 June 2005 and at the Annual and Extraordinary General Meetings held on 1 June 2006.

The share buyback authority remains in force until the Annual General Meeting in 2007, 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 shares. At 31 December 2006, 4,055,674 such options were outstanding.

During 2006, 6,861,276 options granted in May and September 2003 under the IHG Executive Share Option Plan, vested in full. Of these, 4,775,316 had been exercised by 31 December 2006.

During 2006, conditional rights over 4,277,550 shares were awarded to employees under the Performance Restricted Share Plan and 1,395,277 shares were released to employees under the Plan.

A number of employees participated in the Short Term Deferred Incentive Plan during the year. Conditional rights over 606,573 shares were awarded to participants. 328,422 shares were released under the Plan during the year. A number of participants are eligible to receive an award in shares on 26 February 2007.

Following the disposal of IHG's interest in the Britvic Group in December 2005, no further awards over the Company's shares may now be made in respect of the Britvic Share Incentive Plan. No options were granted under either the Executive Share Option Plan or the Sharesave Plan during the year. Neither the Hotels Group Share Incentive Plan nor the US Employee Stock Purchase Plan was operated during the year.

During the year, no awards or grants over shares were made that would be dilutive of the Company's ordinary share capital. All awards or grants under the Company's share plans made during 2006 are to be settled with shares purchased in the market.

Share capital

During the year, 4,509,058 new shares were issued under employee share plans and, following the share capital consolidation, the share capital at 31 December 2006 consisted of 356,116,049 ordinary shares of 11 $\frac{3}{4}$ p each.

The Company did not utilise the authority given by shareholders at the last Annual General Meeting, to allot shares for cash without offering such shares to existing shareholders.

Substantial shareholdings

As at 19 February 2007, the Company has been notified by shareholders of the following substantial interests (3% or more) in its ordinary share capital:

Ellerman Corporation Limited 5%
Lloyds TSB Group Plc 5%
Legal & General Group Plc 3.34%

Directors

Details of Directors who served on the Board during the year are shown on page 27. Details of the share interests of Directors who were on the Board at the year end are shown on page 38. No changes to these interests occurred between the year end and the date of this report.

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 11,456 people worldwide in the year ended 31 December 2006.

Further information regarding the Group's employment policies, including its obligations under equal opportunities legislation, its commitment to employee communications and its approach towards staff development can be found on pages 16 and 17 of the OFR.

Ethics and business conduct

Among the Group's core values is the concept that all employees should have the courage and conviction to do what is right. During 2006, following a review of existing internal policies and guidelines, the Board adopted a new global Code of Ethics and Business Conduct. This consolidates and clarifies expected standards of behaviour and communicates the ethical values of the Group. The Code is applicable to all employees and is available on the Company's website www.ihg.com/corporate

IHG believes that Corporate Social Responsibility (CSR) makes sound business sense, and seeks to embed good practice throughout the Group. Details of the Group's charitable, community, environmental and socially responsible activities and policies are provided on pages 24 to 27 of the Annual Review and Summary Financial Statement 2006. IHG's approach towards CSR is also referred to on page 17 of the OFR and published in more detail on the website www.ihg.com/corporate

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

Charitable donations

During the year the Group donated £653,000 in support of community initiatives and charitable 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 2006 are estimated at £925,000.

Financial risk management

The Group's financial risk management objectives and policies, including its use of financial instruments, are set out on pages 15 and 16 of the OFR and in notes 21 and 22 to the Group financial statements on pages 70 to 72.

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 44 to 83 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 who held office as at the date of approval of this report confirm that they 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 Friday, 1 June 2007 is contained in a circular sent to shareholders with this Report.

By order of the Board

Richard Winter
Company Secretary
19 February 2007

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 considers that the Company has complied with the Code requirements throughout the year ended 31 December 2006.

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.ihg.com/investors as required by the SEC.

Control environment

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 2006, 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 has been undertaken to identify, evaluate and test key financial controls across all our business units. This should enable appropriate representations regarding the effectiveness of internal financial controls to be made in the Company's Annual Report on Form 20-F (which will be filed with the SEC) 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 six 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 are independent.

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.

Eight regular Board meetings are scheduled each year and further meetings are held as needed. The regular Board meetings were held, as planned, during 2006. These were attended by all Directors with the exception that Ralph Kugler and Sir Howard Stringer could not attend one meeting each. Despite being unable to attend a meeting, these Directors were provided with all the papers and information relevant to that meeting and were able to discuss matters arising with the Chairman and the Chief Executive.

It is unavoidable that, from time to time, particularly given the other corporate and international responsibilities of the very experienced people concerned, individual Non-Executive Directors may be unable to attend a Board meeting. 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. A third party facilitator assists in the performance evaluation in alternate years. For 2006 the evaluation was conducted internally.

The 2006 evaluation, including that of the Chief Executive, involved the Chairman holding one-to-one meetings with each Director and the Company Secretary. A number of areas for assessment had been identified by the Chairman in advance of these meetings, and these were used as a framework for the discussions. The effectiveness of changes made to the Board's processes and procedures following the evaluation for 2005 was one of the areas discussed.

The Chairman reported to the Board and facilitated a discussion of the findings. The Board concluded that it was operating in an effective manner but identified some areas where further improvements could be made. However, they noted that points raised during the previous year had been satisfactorily addressed.

With regard to the performance of individual Directors, following the evaluation process, the Chairman concluded that each Director continues to make an effective contribution to the work of the Board, is well prepared and informed concerning items to be considered by the Board, has a good understanding of the Group's businesses and retains a strong commitment to the role.

During the year, the Non-Executive Directors met together without the Chairman present, under the chairmanship of the Senior Independent Director, to appraise the Chairman's performance. The outcome of this appraisal was positive.

The work and effectiveness during the year of the Audit, Remuneration and Nomination Committees were also evaluated, and the results were reported to the Board. The reviews concluded that each Committee was operating in an effective manner.

The following were Directors of the Company during the year:

	Position	Date of original appointment ¹
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 ²	Non-Executive Director	15.4.03

¹ The capital reorganisation of the Group, effective on 27 June 2005, entailed the insertion of a new parent company of the Group. All Directors serving at that time signed new letters of appointment effective from that date. The dates shown above represent the original dates of appointment of each of the Directors to the Group's parent company.

² Sir Howard Stringer resigned as a Director of the Company on 10 November 2006.

Current Directors' biographical details are set out on page 22 of this Report. These include their main external commitments.

On appointment, Non-Executive Directors participate 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. Comprehensive induction programmes are also put in place for any Executive Director who may join the Group. 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. He is also Non-Executive Chairman of Makinson Cowell Limited.

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 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.

Corporate governance

Chief Executive

Andrew Cosslett was Chief Executive throughout the year. 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 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 was Senior Independent Director throughout the year. His responsibilities include being available to liaise with shareholders who have issues to raise and leading the performance evaluation of the Chairman.

Non-Executive Directors

A team of experienced independent Non-Executive Directors represents a strong source of advice and judgement. There are currently six 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.

Non-Executive Directors have the opportunity of continuing professional development during the year and of gaining further insight into the Group's business. During 2006, 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 and which are subject to review every year.

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. 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. Throughout 2006, the other Committee members were Sir David Prosser, Ralph Kugler and Jennifer Laing. The Committee is scheduled to meet at least four times a year. The Committee met five times in the year. These meetings were attended by all Committee members, with the exception that Ralph Kugler could not attend one meeting. The Audit Committee's role is described on page 30.

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, until 10 November 2006, Sir Howard Stringer. It meets at least three times a year. Its role is described on page 31. The Committee met four times during the year. 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. Candidate profiles and objective selection criteria are prepared in advance of any engagements. The Committee also assists the Board in identifying and developing the role of the Senior Independent Director. The Committee formally met once during the year. Sir David Prosser and Sir Howard Stringer were unable to attend this meeting.

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

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

Re-election of Directors

The Company's Articles 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. In 2007, only two Directors fall into this category. 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 Sir David Prosser, Richard Solomons and David Webster will retire by rotation and offer themselves for re-election at the Annual General Meeting on 1 June 2007.

In addition, Robert C Larson, having attained the age of 70 and also in accordance with the provisions of the Combined Code, is now subject to annual retirement and re-election, if he wishes to continue to serve as a Director. Special notice has been given to the Company in connection with a resolution to propose his re-election to 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 34. The Non-Executive Chairman and the six 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.ihg.com/corporate

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 the Annual General Meeting to answer questions. Information about the Group is maintained and available to shareholders 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 all the Committees were reviewed during the year and, in particular, the terms of reference of the Audit, Remuneration and Disclosure Committees were reviewed by the Board during 2006 to ensure that they continue to reflect best practice. Main Committee terms of reference are available on the Company's website www.ihg.com/corporate 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
19 February 2007

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, and the attendance of its members, all of whom served throughout 2006, are set out on page 28. 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 FTSE 100 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 the Group's Code of Ethics and Business Conduct and oversee associated procedures for monitoring adherence.

The Committee discharges its responsibilities through a series of Audit Committee meetings during 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;
- consideration of the results of the Group's tangible asset impairment review;
- 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;
- approving the Group's tax objectives and policies;
- approving the Group's treasury objectives and policies;
- consideration of the adequacy of the Group's approach to fraud risk management, including associated recommendations for improving control;
- 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 and the continuing appropriateness of its terms of reference.

David Kappler

Chairman of the Audit Committee
19 February 2007

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 2006 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

Robert C Larson

Jonathan Linen

Sir Howard Stringer (to 10 November 2006)

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 four times in the year. Sir Howard Stringer, who resigned from the Board on 10 November 2006, was unable to attend two meetings prior to his resignation.

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:

David Webster – Chairman

Andrew Cosslett – Chief Executive

Tracy Robbins – Executive Vice President, Global Human Resources

Lori Gaytan – Senior Vice President, Global Human Resources
(from 18 August 2006)

David House – Senior Vice President, Global Human Resources
(to 18 August 2006)

Linklaters

Towers Perrin

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

Ms Robbins and Ms Gaytan, Mr House, Linklaters and Towers Perrin were originally appointed by the Group. Following planned changes within the Global Human Resources function, Ms Gaytan took over Mr House's advisory role to the Committee with effect from 18 August 2006. The terms of reference for Towers Perrin 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.

Non-Executive Directors' fee levels were last established on 1 January 2005. Having taken into account the global nature, scale and complexity of the Group's business, and current competitive fee levels, the Board has determined the following annual fee rates, applicable from 1 January 2007:

Chairman £390,000 (from £350,000); Senior Independent Director and Chairman of the Audit Committee £95,000 (from £80,000); Chairman of the Remuneration Committee £80,000 (from £65,000); and all other Non-Executive Directors £60,000 (from £50,000).

3 Policy on remuneration of Executive Directors and senior executives

The following policy has applied throughout the year and, except where stated, 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.

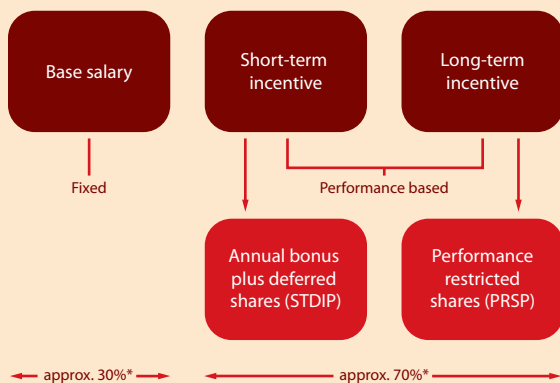
The Committee is aware that, as its primary listing is on the London Stock Exchange, IHG's incentive arrangements may be expected to recognise UK investor guidelines. However, given the global nature of the Hotels business, an appropriate balance needs to be drawn in the design of relevant remuneration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

Remuneration report

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.

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



*Using target or expected value calculations.

The main components of remuneration are as follows:

Base salary and benefits The salary for each Executive Director is reviewed annually and based on both individual performance and on the most recent relevant market information provided from independent professional sources on comparable salary levels. Internal relativities and salary levels in the wider employment market are also taken into account.

Base salary is the only element of remuneration which is pensionable.

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

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; and
- relevance to the hotel industry.

Annual performance bonus This has two elements – the Short Term Incentive Plan (STI) and the Short Term Deferred Incentive Plan (STDIP). Both elements require the achievement of challenging performance goals before target bonus is payable.

The STI is linked to individual performance as measured by an assessment of comprehensive business unit deliverables, demonstrated leadership behaviours, and the achievement of specific Key Performance Objectives that are linked directly to the Group's strategic priorities. For Executive Directors, the target bonus opportunity under the STI in 2007 is 40% of salary, payable in cash.

The STDIP is linked to the Group's financial and operational performance. The target bonus opportunity under the STDIP in 2007 is 50% of salary of which half is linked to net annual room additions and half is linked to earnings before special items, interest and taxation.

It is possible for participants to earn maximum bonuses of double the targets under the STI and the STDIP. No bonus is payable if financial and operational performance is less than 90% of target and maximum bonus is payable if performance exceeds 110% of target.

Under the 2006 STDIP, 80% of bonus must be paid in shares and deferred. Participants may defer the remaining 20% of bonus on the same terms. For 2007, 100% of the bonus will be paid in shares and deferred. Matching shares may also be awarded up to half the total deferred amount. Any matching award is taken into account when the Committee decides the basic level of payment under the STDIP. Therefore there is no separate performance test governing the vesting of matching awards. Such awards are, however, 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.

Performance restricted shares 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 Committee, which is normally measured over a three-year period. Awards are normally made annually and, other than in exceptional circumstances, will not exceed three times annual salary for Executive Directors.

For the 2006/08 PRSP cycle, performance will be measured by reference to:

- the increase in IHG's Total Shareholder Return (TSR) over the performance period relative to nine* identified comparator companies: Accor, Hilton Hotels Corp., Choice, Marriott Hotels, Millennium & Copthorne, NH Hotels, Sol Melia, Starwood Hotels and Wyndham Worldwide; and
- the cumulative annual growth (CAGR) in the number of rooms within the IHG system over the performance period relative to eight identified comparator companies: Carlson Hospitality Worldwide, Choice, Hilton Hotels Corp., Hyatt Hotels & Resorts, Marriott Hotels, Sol Melia, Starwood Hotels and Wyndham Worldwide.

*Following the delisting of De Vere Group Plc shares in September 2006.

In respect of TSR performance, 10% of the award will be released for the achievement of fifth 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 growth 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 which is the simplest and fairest method of calculating awards that lie between threshold and maximum levels.

Awards under the PRSP lapse if the performance conditions are not met – there is no retesting.

As indicated in last year's report, the Committee believes that relative TSR and a rooms growth related performance measure are appropriate performance measures, effectively aligning appropriate elements of incentive pay with shareholder interests and the Group's stated objective of increasing organic growth and the number of rooms in the IHG system.

The target date for achieving the current rooms growth objective is the end of 2008 and therefore the Committee has concluded that the rooms growth related measure is now more appropriately measured and awarded through the annual bonus plan. For the 2007/09 cycle, the performance measures for the PRSP will therefore be as follows:

- 50% of the award will continue to be based on IHG's TSR relative to its peer comparator companies. 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 first place only (previously first or second place). Vesting between all stated points will continue to be on a straight line basis.
- The other 50% of the award will depend on growth in adjusted Earnings Per Share (EPS) over the period. 10% of the award will be released if adjusted EPS growth is 10% per annum and 50% of the award will be released if adjusted EPS growth is 20% per annum or more. There will be no adjustment for any increase in the UK Retail Price Index (RPI) because this does not significantly affect IHG's results.

Executive share options As reported last year, executive share options do not presently form part of the Group's remuneration strategy. Details of prior executive share option grants are given in the table on page 38.

For options granted in 2004 and 2005, a performance condition has to be met before options can be exercised. For both grants, the Company's adjusted EPS over a three-year period must increase by at least nine percentage points over the increase in 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.

Share ownership 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.

The Executive Directors are expected to hold all shares earned (net of any share sales required to meet personal tax liabilities) from the Group's remuneration plans while the value of their holding is less than twice their base salary or three times in the case of the Chief Executive.

3.3 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.

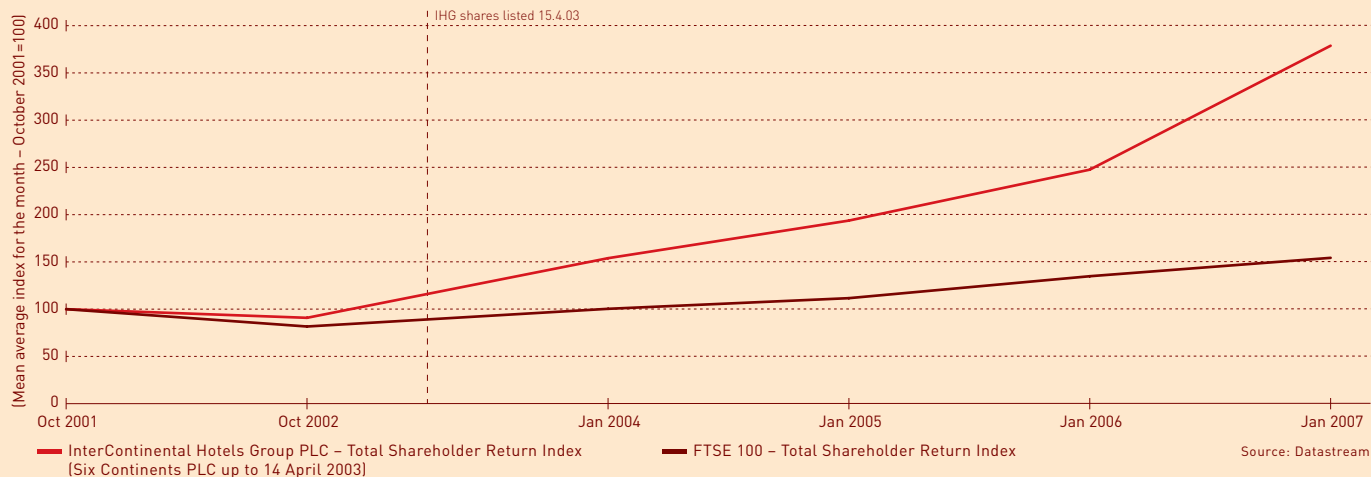
Andrew Cosslett is Non-Executive Chairman of Duchy Originals Limited, for which he receives no remuneration.

Remuneration report

3.4 Performance graph

Throughout the year, the Company has been a member of the FTSE 100 index. Accordingly, the Committee believes that this is the most appropriate market index against which to test the Company's performance. The graph below measures the TSR performance of Six Continents PLC up to Separation, and subsequently the performance of InterContinental Hotels Group PLC, assuming dividends are reinvested, compared with the TSR performance achieved by the FTSE 100 companies.

Total Shareholder Return: InterContinental Hotels Group PLC v FTSE 100



3.5 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. Andrew Cosslett, Richard Hartman, Stevan Porter and Richard Solomons have service agreements with a notice period of 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's appointment as Non-Executive Chairman, effective from 1 January 2004, is subject to six months' notice. All other Non-Executive Directors' appointments are subject to three months' notice. The dates of appointment of the other Non-Executive Directors are set out on page 27.

b) Directors' contracts

Director	Contract effective date ¹	Unexpired term/notice period
Andrew Cosslett	03.02.05	12 months
Richard Hartman	15.04.03	7 months ²
Stevan Porter	15.04.03	12 months
Richard Solomons	15.04.03	12 months

¹ Each of the Executive Directors signed a letter of appointment, effective from completion of the June 2005 capital reorganisation of the Group on the same terms as their original service agreements.

² Richard Hartman is due to retire in September 2007. Having given contractual notice, his unexpired term of office as at the date of this report is seven months.

3.6 Policy regarding pensions

Andrew Cosslett, Richard Solomons and other senior UK-based 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, but with appropriate security provided via a fixed charge on a hotel asset. Currently, pensions benefits are provided from both the registered 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, from 2006 these plans were 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.

Stevan Porter and senior US-based executives participate in US retirement benefits plans.

With effect from 30 January 2006, Richard Hartman ceased to be an active member of the InterContinental Hotels UK Pension Plan and InterContinental Executive Top-Up Scheme, and from that date participates in the InterContinental Hotels Group International Savings and Retirement Plan. Executives in other countries participate in these plans or local plans.

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

	Base salaries and fees €000	Performance payments ¹ €000	Benefits ² €000	Total emoluments excluding pensions	
				1.1.06 to 31.12.06 €000	1.1.05 to 31.12.05 €000
4 Directors' emoluments					
Executive Directors					
Andrew Cosslett	688	549	31	1,268	663
Richard Hartman	503	203	299	1,005	798
Stevan Porter ³	427	290	9	726	429
Richard Solomons	440	351	15	806	423
Non-Executive Directors					
David Webster ⁴	350	–	4	354	522
David Kappler ⁵	80	–	–	80	80
Ralph Kugler ⁶	50	–	–	50	50
Jennifer Laing ⁶	50	–	–	50	18
Robert C Larson ⁶	50	–	–	50	50
Jonathan Linen ⁶	50	–	–	50	4
Sir David Prosser ⁷	65	–	–	65	65
Sir Howard Stringer ⁸	43	–	–	43	50
Former Directors⁹	–	–	1	1	917
Total	2,796	1,393	359	4,548	4,069

1 'Performance payments' include bonus awards in cash in respect of participation in the Short Term Incentive (STI) Plan and 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 36.

2 '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.

3 Emoluments for Stevan Porter include €51,413 that was chargeable to UK income tax.

4 With effect from 1 January 2007, David Webster is paid an annual fee of €390,000.

5 With effect from 1 January 2007, David Kappler is paid a total annual fee of €95,000, reflecting his roles as Senior Independent Director and Chairman of the Audit Committee.

6 With effect from 1 January 2007, an annual fee of €60,000 is payable to each of Ralph Kugler, Jennifer Laing, Robert C Larson and Jonathan Linen. All fees due to Ralph Kugler are paid to Unilever.

7 With effect from 1 January 2007, Sir David Prosser is paid a total annual fee of €80,000, reflecting his role as Chairman of the Remuneration Committee.

8 Sir Howard Stringer resigned as a Director on 10 November 2006.

9 Sir Ian Prosser retired as a Director on 31 December 2003. However, he had an ongoing healthcare benefit of €1,027 during the year.

Remuneration report

5 Long-term reward

Short Term Deferred Incentive Plan (STDIP)

Messrs Cosslett, Hartman, Porter and Solomons participated in the STDIP during the year ended 31 December 2006, and are expected to receive an award on 26 February 2007.

Directors' pre-tax interests during the year were:

Directors	STDIP shares held at 1.1.06	STDIP shares awarded during the year 1.1.06 to 31.12.06	Award date	Market price per share at award	STDIP shares vested during the year 1.1.06 to 31.12.06	Vesting date	Market price per share at vesting	Value at vesting £	STDIP shares held at 31.12.06	Planned vesting date	Value based on share price of 1262.0p at 31.12.06 £
Andrew Cosslett	39,916 ¹		1.4.05	617.5p	39,916	3.4.06	942p	376,009	–		
	39,916 ¹		1.4.05	617.5p					39,916	1.4.07	503,740
		105,276 ^{3,7}	8.3.06	853.67p					32,168	8.3.07	405,961
									32,167	8.3.08	405,948
									32,168	8.3.09	405,961
Total									136,419		1,721,610
Richard Hartman	29,447 ²		16.3.05	654p	29,447	16.3.06	891.58p	262,544	–		
	29,447 ²		16.3.05	654p					29,447	16.3.07	371,622
	29,447 ²		16.3.05	654p					29,447	16.3.08	371,622
		64,518 ^{4,7}	8.3.06	853.67p					19,714	8.3.07	248,791
									19,714	8.3.08	248,791
									19,713	8.3.09	248,779
Total									118,035		1,489,605
Stevan Porter	26,978 ²		16.3.05	654p	26,978	16.3.06	891.58p	240,530 ⁸	–		
	26,978 ²		16.3.05	654p					26,978	16.3.07	340,463
	26,978 ²		16.3.05	654p					26,978	16.3.08	340,463
		67,557 ^{5,7}	8.3.06	853.67p					20,643	8.3.07	260,515
									20,642	8.3.08	260,503
									20,642	8.3.09	260,503
Total									115,883		1,462,447
Richard Solomons	29,020 ²		16.3.05	654p	29,020	16.3.06	891.58p	258,737	–		
	29,020 ²		16.3.05	654p					29,020	16.3.07	366,233
	29,021 ²		16.3.05	654p					29,021	16.3.08	366,246
		67,296 ^{6,7}	8.3.06	853.67p					20,563	8.3.07	259,506
									20,562	8.3.08	259,493
									20,563	8.3.09	259,506
Total									119,729		1,510,984

1 This special award was made to Andrew Cosslett as part of his overall recruitment terms. The shares vest in equal portions on the first and second anniversary of the award date, subject to his continued employment until that time. The first half of the award vested on 3 April 2006.

2 This award was based on financial year 2004 performance where the performance measures were related to earnings per share (EPS), earnings before interest and tax (EBIT) and personal performance. Total Shares held include matching shares.

3 This award was based on financial year 2005 performance and the bonus target was 50% of base salary. Andrew Cosslett was awarded 70% of his bonus target for EPS performance, 69.4% of his bonus target for Group EBIT performance and 45% of his bonus target for his personal performance. Andrew Cosslett's total bonus was therefore 184.4% of his bonus target. One matching share was awarded for every two bonus shares earned.

4 This award was based on financial year 2005 performance and the bonus target was 50% of base salary. Richard Hartman was awarded 70% of his bonus target for EPS performance, 46.2% of his bonus target for EMEA EBIT performance and 30% of his bonus target for his personal performance. Richard Hartman's total bonus was therefore 146.2% of his bonus target. One matching share was awarded for every two bonus shares earned.

5 This award was based on financial year 2005 performance and the bonus target was 50% of base salary. Stevan Porter was awarded 70% of his bonus target for EPS performance, 64.4% of his bonus target for The Americas EBIT performance and 45% of his bonus target for his personal performance. Stevan Porter's total bonus was therefore 179.4% of his bonus target. One matching share was awarded for every two bonus shares earned.

6 This award was based on financial year 2005 performance and the bonus target was 50% of base salary. Richard Solomons was awarded 70% of his bonus target for EPS performance, 69.4% of his bonus target for Group EBIT performance and 45% of his bonus target for his personal performance. Richard Solomons' total bonus was therefore 184.4% of his bonus target. One matching share was awarded for every two bonus shares earned.

7 These share interests were in InterContinental Hotels Group PLC 10p ordinary shares prior to the share consolidation effective from 12 June 2006. For every eight existing InterContinental Hotels Group PLC shares held on 9 June 2006, shareholders received seven new ordinary shares of 11p each and 118p per existing ordinary share. As a consequence, shares held at 31 December 2006 have been reduced accordingly.

8 The value of Stevan Porter's shares at vesting includes £17,037 that was chargeable to UK income tax.

Performance Restricted Share Plan (PRSP)

In 2006, 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 2005, 31 December 2006, 31 December 2007 and 31 December 2008 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 2006, the Company finished in third place in the TSR group and achieved ROCE growth of 98.2%. Accordingly, 62.4% of the award will vest on 21 February 2007.

	Maximum PRSP shares held at 1.1.06	Maximum PRSP shares awarded during the year 1.1.06 to 31.12.06	Award date	Market price per share at award	PRSP shares vested during the year 1.1.06 to 31.12.06	Market price per share at vesting	Value at vesting £	Actual/ planned vesting date	Maximum PRSP shares held at 31.12.06	Maximum value based on share price of 1262.0p at 31.12.06 £	Expected value based on share price of 1262.0p at 31.12.06 £
Directors											
Andrew Cosslett	68,216 ¹		1.4.05	617.5p	29,196	858p	250,502	3.3.06	–		
	136,432 ²		1.4.05	617.5p	–			21.2.07	136,432	1,721,772	1,074,386 ⁸
	276,200 ³		29.6.05	706p	–			20.2.08	276,200	3,485,644	
		200,740 ⁴	3.4.06	941.5p	–			18.2.09	200,740	2,533,339	
Total									613,372	7,740,755	
Richard Hartman	167,900 ¹		18.6.03	445p	71,861	858p	616,567	3.3.06	–		
	165,130 ²		24.6.04	549.5p	–			21.2.07	165,130	2,083,941	1,300,380 ⁸
	214,870 ³		29.6.05	706p	–			20.2.08	214,870	2,711,660	
		146,110 ⁴	3.4.06	941.5p	–			18.2.09	146,110	1,843,909	
Total									526,110	6,639,510	
Stevan Porter	170,710 ¹		18.6.03	445p	73,063	858p	626,881 ⁷	3.3.06	–		
	142,290 ²		24.6.04	549.5p	–			21.2.07	142,290	1,795,700	1,120,517 ⁸
	174,900 ³		29.6.05	706p	–			20.2.08	174,900	2,207,238	
		132,240 ⁴	3.4.06	941.5p	–			18.2.09	132,240	1,668,869	
Total									449,430	5,671,807	
Richard Solomons	165,160 ¹		18.6.03	445p	70,688	858p	606,503	3.3.06	–		
	144,990 ²		24.6.04	549.5p	–			21.2.07	144,990	1,829,774	1,141,779 ⁸
	176,550 ³		29.6.05	706p	–			20.2.08	176,550	2,228,061	
		128,470 ⁴	3.4.06	941.5p	–			18.2.09	128,470	1,621,292	
Total									450,010	5,679,127	
Former Directors											
Richard North	259,545 ^{1, 5}		18.6.03	445p	111,085	858p	953,109	3.3.06	–		
	144,993 ^{2, 5}		24.6.04	549.5p	–			21.2.07	144,993	1,829,812	1,141,803 ⁸
Total									144,993	1,829,812	
Sir Ian Prosser	65,410 ^{1, 6}		18.6.03	445p	27,995	858p	240,197	3.3.06	–		
Total									–		
Total										27,561,011	

1 This award was based on performance to 31 December 2005 where the performance measure related to both the Company's Total Shareholder Return (TSR) against a group of 11 other comparator companies and growth in return on capital employed (ROCE). The number of shares released was graded, according to a) where the Company finished 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. The Company finished in fifth place in the TSR group and achieved ROCE growth of 46%. Accordingly 42.8% of the award vested on 3 March 2006.

2 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 eight other comparator companies and growth in 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 fifth place; and b) growth in ROCE, with 50% of the award being released for 141.6% growth and 10% of the award being released for 70% growth.

3 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 eight other comparator companies and the relative cumulative annual growth rate (CAGR) of rooms in the IHG system.

4 This award is based on performance to 31 December 2008 where the performance measure relates to both the Company's TSR against a group of nine other comparator companies and the relative CAGR of rooms in the IHG system.

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

6 Sir Ian Prosser's award was pro-rated to reflect his actual service during the applicable performance period.

7 The value of Stevan Porter's shares at vesting includes £44,404 that was chargeable to UK income tax.

8 The Company finished in third place in the TSR group and achieved ROCE growth of 98.2%. Accordingly, 62.4% of the award will vest on 21 February 2007.

Remuneration report

Share options

In 2003, Directors and other executives with outstanding options under the Six Continents Executive Share Option Schemes were permitted to roll over those options into options of equivalent value over IHG shares. In 2003, a grant of options was made under the IHG all-employee Sharesave Plan. In 2003, 2004 and 2005, grants of options were made under the IHG Executive Share Option Plan.

	Ordinary shares under option					Options held at 31.12.06	Weighted average option price (p)	Option price (p)
	Options held at 1.1.06	Granted during the year	Lapsed during the year	Exercised during the year				
Directors								
Andrew Cosslett	157,300						619.83	
a					157,300			
Total	157,300	-	-	-	157,300		619.83	
Richard Hartman	952,832						458.66	
				136,795				349.13
				105,332				422.81
				122,261				434.22
				250,684				438.00
a					337,760		538.37	
Total	952,832	-	-	615,072	337,760		538.37	
Stevan Porter	576,513						490.34	
				254,883 ²				438.00
a					321,630		531.82	
Total	576,513	-	-	254,883	321,630		531.82	
Richard Solomons	574,365 ¹						494.24	
				239,726				438.00
a					334,639 ¹		531.10	
Total	574,365	-	-	239,726	334,639		531.10	

a Where options are not yet exercisable. Sharesave options granted in 2003 are exercisable for six months from March 2009. Executive share options granted in 2004 are exercisable between April 2007 and April 2014. Executive share options granted in 2005 are exercisable between April 2008 and April 2015. The performance condition relating to both the 2004 and 2005 grants of executive share options is set out on page 33.

1 Includes 3,769 Sharesave options granted in 2003.

2 The value of Stevan Porter's shares on exercise includes £91,778 that was chargeable to UK income tax.

Option prices range from 308.48p to 619.83p per IHG share. The closing market value share price on 29 December 2006 was 1262.00p and the range during the year was 806.69p to 1265.00p per share.

The gain on exercise by Directors in aggregate was £6,662,750 in the year ended 31 December 2006 (£1,658,109 in the year ended 31 December 2005). The market value share prices on the exercise of options by Richard Hartman, Stevan Porter and Richard Solomons were 1047.34p, 946.35p and 1054.12p per share respectively.

6 Directors' shareholdings

Executive Directors	31 December 2006	1 January 2006 ¹
	InterContinental Hotels Group PLC ordinary shares of 11½p ³	InterContinental Hotels Group PLC ordinary shares of 10p
Andrew Cosslett	42,063	7,332
Richard Hartman	-	70,117
Stevan Porter	114,446	64,589
Richard Solomons	104,247	60,339
Non-Executive Directors		
David Kappler	1,669	1,908
Ralph Kugler	572	654
Jennifer Laing	875	-
Robert C Larson	6,874 ²	7,857 ²
Jonathan Linen	8,750 ²	-
Sir David Prosser	2,863	3,273
David Webster	31,975	31,823

1 These share interests were in InterContinental Hotels Group PLC 10p ordinary shares prior to the share consolidation effective from 12 June 2006. For every eight existing InterContinental Hotels Group PLC shares held on 9 June 2006, shareholders received seven new ordinary shares of 11½p each and 118p per existing ordinary share.

2 Held in the form of American Depositary Receipts.

3 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 2006, 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 1,324,110 unallocated shares held by the Trust (2,924,775 shares as at 31 December 2005). In the period from 31 December 2006 to 19 February 2007, a further 58,704 shares were released from the Trust, reducing the number of shares in which these Directors hold a residual interest to 1,265,406 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, registered, 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', partners' and dependants' pensions on death. When benefits would otherwise exceed a member's lifetime allowance under the post-April 2006 pensions regime, these benefits are limited in the IC Plan, but the balance is provided instead by ICETUS.

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 instead participates in the InterContinental Hotels Group International Savings and Retirement Plan (IS&RP), which is a Jersey-based defined contribution plan to which the Company contributes.

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 31.12.06	Directors' contributions in the year ¹ £	Transfer value of accrued benefits		Increases in transfer value over the year, less Directors' contributions £	Increase in accrued pension ² £ pa	Increase in accrued pension ³ £ pa	Accrued pension at 31.12.06 ⁴ £ pa
			1.1.06 £	31.12.06 £				
Andrew Cosslett	51	28,300	266,900	595,300	300,100	24,200	23,600	43,800
Richard Hartman	60	1,300	1,848,200	1,935,400	85,900	8,100	5,600	94,700
Richard Solomons	45	19,500	1,227,100	1,470,500	223,900	24,500	21,000	143,800

1 Contributions paid in the year by the Directors under the terms of the plans. Contributions increased in April 2006 under the new pensions regime, to 5% of full pensionable salary.

2 The absolute increase in accrued pension during the year.

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.

4 Accrued pension is that which would be paid annually on retirement at 60, based on service to 31 December 2006, except that for Richard Hartman the figure shown is the pension at age 60, increased to allow for its late payment.

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	43,300	6,000	80,900	4,900

The Company contributions made in respect of Richard Hartman to the IS&RP during the year are £183,100. He made no contributions.

By order of the Board

Richard Winter
Company Secretary
19 February 2007

Group financial statements

In this section we present the statement of Directors' responsibilities, the independent auditor's report and the consolidated financial statements for the Group.

42	STATEMENT OF DIRECTORS' RESPONSIBILITIES
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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 auditor set out opposite, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditor 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 Group and the financial performance and cash flows of the Group for that period.

The Directors consider that in preparing the Group financial statements on pages 44 to 83 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 members 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 2006 which comprise the 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 35. 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 2006 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' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union are 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business review and future developments and employees sections of the Directors' Report.

In addition we report to you if, in our opinion 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 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 Highlights, Chairman's Statement, Chief Executive's Review, Operating and Financial Review, the Board and Executive Committee Statement, Directors' Report, Corporate Governance Statement, Audit Committee Report and the Remuneration Report. 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 IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group financial statements.

**Ernst & Young LLP,
Registered auditor, London.**

19 February 2007

Group financial statements

Group income statement

for the year ended 31 December 2006	note	2006			2005		
		Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Revenue	2	805	155	960	713	1,197	1,910
Cost of sales		(364)	(121)	(485)	(333)	(884)	(1,217)
Administrative expenses		(180)	–	(180)	(150)	(74)	(224)
		261	34	295	230	239	469
Depreciation and amortisation	2	(60)	(4)	(64)	(57)	(73)	(130)
Other operating income and expenses	5	27	–	27	(22)	–	(22)
Operating profit	2	228	30	258	151	166	317
Financial income	6	26	–	26	30	–	30
Financial expenses	6	(37)	–	(37)	(54)	(9)	(63)
Profit before tax		217	30	247	127	157	284
Tax	7	50	(9)	41	(24)	(56)	(80)
Profit after tax		267	21	288	103	101	204
Gain on disposal of assets, net of tax charge of £6m (2005 £38m)	5	–	117	117	–	311	311
Profit for the year		267	138	405	103	412	515
Attributable to:							
Equity holders of the parent		267	138	405	103	393	496
Minority equity interest		–	–	–	–	19	19
Profit for the year		267	138	405	103	412	515
Earnings per ordinary share:	9						
Basic		68.6p	35.5p	104.1p	19.8p	75.4p	95.2p
Diluted		66.9p	34.6p	101.5p	19.3p	73.8p	93.1p
Adjusted		37.5p		42.9p	22.5p		38.2p
Adjusted diluted		36.6p		41.8p	21.9p		37.3p

Notes on pages 48 to 83 form an integral part of these financial statements.

Group statement of recognised income and expense

for the year ended 31 December 2006	2006 £m	2005 £m
Income and expense recognised directly in equity		
Gains on valuation of available-for-sale assets	16	31
Gains on cash flow hedges	1	1
Exchange differences on retranslation of foreign operations	(30)	29
Actuarial losses on defined benefit pension plans	(2)	(23)
	(15)	38
Transfers to the income statement		
On cash flow hedges	(1)	(6)
On disposal of foreign operations	4	2
On disposal of available-for-sale assets	(14)	–
	(11)	(4)
Tax		
Tax on items above taken directly to or transferred from equity	4	(1)
Deferred tax related to share schemes recognised directly in equity	26	8
	30	7
Net income recognised directly in equity	4	41
Profit for the year	405	515
Total recognised income and expense for the year	409	556
Attributable to:		
Equity holders of the parent	409	541
Minority equity interest	–	15
	409	556
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 48 to 83 form an integral part of these financial statements.

Group financial statements

Group cash flow statement

for the year ended 31 December 2006	2006 £m	2005 £m
Profit for the year	405	515
Adjustments for:		
Net financial expense	11	33
Income tax (credit)/charge	(41)	80
Gain on disposal of assets, net of tax	(117)	(311)
Other operating income and expenses	(27)	22
Depreciation and amortisation	64	130
Equity settled share-based cost, net of payments	14	12
Operating cash flow before movements in working capital	309	481
Increase in receivables	(31)	–
Increase/(decrease) in provisions and other payables	10	(32)
Employee benefit contributions, net of cost	–	(26)
Cash flow from operations	288	423
Interest paid	(33)	(59)
Interest received	24	29
Tax paid	(49)	(91)
Net cash from operating activities	230	302
Cash flow from investing activities		
Purchases of property, plant and equipment – Hotels	(87)	(107)
Purchases of intangible assets – Hotels	(23)	(19)
Purchases of other financial assets – Hotels	(8)	(10)
Acquisition of subsidiary, net of cash acquired	(6)	–
Disposal of assets, net of cash disposed of – Hotels	620	1,816
Proceeds from other financial assets – Hotels	124	10
Purchases of property, plant and equipment – Soft Drinks	–	(47)
Disposal of business, net of cash disposed of – Soft Drinks	–	220
Net cash from investing activities	620	1,863
Cash flow from financing activities		
Proceeds from the issue of share capital	20	10
Purchase of own shares	(260)	(207)
Payment to shareholders as a result of the capital reorganisation on 27 June 2005	–	(996)
Purchase of own shares by employee share trusts	(47)	(29)
Proceeds on release of own shares by employee share trusts	19	16
Dividends paid to shareholders	(561)	(81)
Dividends paid to minority interests	(1)	(177)
Decrease in borrowings	(172)	(442)
Net cash from financing activities	(1,002)	(1,906)
Net movement in cash and cash equivalents in the year	(152)	259
Cash and cash equivalents at beginning of the year	324	72
Exchange rate effects	7	(7)
Cash and cash equivalents at end of the year	179	324

Notes on pages 48 to 83 form an integral part of these financial statements.

Group balance sheet

31 December 2006	note	2006 £m	2005 £m
ASSETS			
Property, plant and equipment	10	997	1,356
Goodwill	12	109	118
Intangible assets	13	154	120
Investment in associates	14	32	42
Other financial assets	15	96	113
Total non-current assets		1,388	1,749
Inventories	16	3	3
Trade and other receivables	17	237	252
Current tax receivable		23	22
Cash and cash equivalents	18	179	324
Other financial assets	15	13	106
Total current assets		455	707
Non-current assets classified as held for sale	11	50	279
Total assets		1,893	2,735
LIABILITIES			
Loans and other borrowings	20	(10)	(2)
Trade and other payables	19	(402)	(468)
Current tax payable		(231)	(324)
Total current liabilities		(643)	(794)
Loans and other borrowings	20	(303)	(410)
Employee benefits	23	(71)	(76)
Trade and other payables	19	(109)	(107)
Deferred tax payable	26	(79)	(210)
Total non-current liabilities		(562)	(803)
Liabilities classified as held for sale	11	(2)	(34)
Total liabilities		(1,207)	(1,631)
Net assets		686	1,104
EQUITY			
Equity share capital	28	66	49
Capital redemption reserve	28	4	1
Shares held by employee share trusts	28	(17)	(22)
Other reserves	28	(1,528)	(1,528)
Unrealised gains and losses reserve	28	27	23
Currency translation reserve	28	(3)	19
Retained earnings	28	2,129	2,542
IHG shareholders' equity		678	1,084
Minority equity interest	29	8	20
Total equity		686	1,104

Signed on behalf of the Board

Richard Solomons

19 February 2007

Notes on pages 48 to 83 form an integral part of these financial statements.

Corporate information and accounting policies

Corporate information

The consolidated financial statements of InterContinental Hotels Group PLC (the Group or IHG) for the year ended 31 December 2006 were authorised for issue in accordance with a resolution of the Directors on 19 February 2007. 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 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.

New accounting standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), becoming effective during the year, have not had a material impact on the Group's financial statements.

The principal 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.

Foreign currencies

Transactions in foreign currencies are translated to the functional currency at the exchange rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the relevant rates of exchange ruling at the balance sheet date. 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.

Derivative financial instruments and hedging

Interest arising from currency swap agreements is taken to financial income or expense on a gross basis over the term of the relevant agreements. Interest arising from other currency derivatives and interest rate swaps is taken to financial income or expense on a net basis over the term of the agreement.

Foreign exchange gains and losses on currency instruments are recognised in financial income and expense unless they form part of effective hedge relationships.

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 financial income or expense.

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 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 that 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 of cash-generating units with their 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. Costs are amortised over estimated useful lives of three to seven years on a straight line basis.

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. The value of management contracts is amortised over the life of the contract which ranges from six to 50 years on a straight line basis.

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 on a straight line basis.

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 asset.

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 associate is classified as held for sale. Under 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 'Financial Instruments: Recognition and Measurement' current and non-current financial assets are classified as 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 they 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.

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.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

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 an original maturity of three months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

In the cash flow statement cash and cash equivalents are shown net of short-term overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Assets held for sale

Non-current assets and associated 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.

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 IHG 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 is estimated using actuarial methods to give eventual redemption rates and points values.

The Group pays interest to the loyalty programme on the accumulated cash received in advance of redemption of the points awarded.

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 payable can be made. If the effect of the time value of money is material, the provision is discounted.

Corporate information and accounting policies

Bank and other borrowings

Bank and other borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. They are subsequently measured 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.

Employee benefits

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 and are updated for material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the balance sheet date.

Taxes

Current tax Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax Deferred tax assets and liabilities are recognised in respect of temporary differences between the tax base and carrying value of assets and liabilities, including 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 realised. 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 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 hotel's 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 under the terms of the agreement.

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 'Share-based Payments' 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.

Assets held under finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Disposal of non-current assets

The Group recognises the sales proceeds and related gain or loss on disposal on completion of the sales process. In determining whether revenue and gain or loss should be recorded, the Group considers whether it:

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

Discontinued operations

Discontinued operations are those relating to hotels sold or those 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.

Special items

The Group discloses certain financial information both including and excluding special items. The presentation of information excluding special items allows a better understanding of the underlying trading performance of the Group and provides consistency with the Group's internal management reporting. Special items, which include other operating income and expenses, are identified by virtue of either their size or incidence so as to facilitate comparison with prior periods and to assess underlying trends in financial performance. Special items can include, but are not restricted to, gains and losses on the disposal of assets, impairment charges and reversals, restructuring costs and the release of tax provisions.

Use of accounting estimates and judgements

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

The estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements are:

- **Impairment** – the Group determines whether goodwill is impaired on an annual basis or more frequently if there are indicators of impairment. Other non-current assets, including property, plant and equipment, are tested for impairment if there are indicators of impairment. Impairment testing requires an estimate of future cash flows and the choice of a suitable discount rate and, in the case of hotels, an assessment of recoverable amount based on comparable market transactions.
- **Pension and other post-employment benefits** – the cost of defined benefit pension plans and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases.
- **Tax** – provisions for tax accruals require judgements on the interpretation of tax legislation, developments in tax case law and the potential outcomes of tax audits and appeals. In addition, deferred tax assets are recognised for unused tax attributes to the extent that it is probable that taxable profit will be available against which they can be utilised. Judgement is required as to the amount that can be recognised based on the likely amount and timing of future taxable profits, taking into account expected tax planning.
- **Loyalty programme** – the future redemption liability included in trade and other payables is estimated using actuarial methods based on statistical formulae that project the timing of future point redemptions based on historical levels to give eventual redemption rates and points values.
- **Trade receivables** – an allowance for doubtful amounts of trade receivables is made on the basis of historical experience and other factors considered relevant by management.
- **Other** – the Group also makes estimates and judgements in the valuation of management and franchise agreements acquired on asset disposals, the valuation of financial assets classified as available-for-sale, the outcome of legal proceedings and claims and in the valuation of share-based payment costs.

New standards and interpretations

The IASB and IFRIC issued the following standards and interpretations with an effective date after the date of these financial statements. They have not been adopted early by the Group and the Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's reported income or net assets in the period of adoption.

- IFRS 7 Financial Instruments: Disclosures
Effective from 1 January 2007
- IFRS 8 Operating Segments
Effective from 1 January 2009
- IFRIC 10 Interim Financial Reporting and Impairment
Effective from 1 November 2006
- IFRIC 11 Group and Treasury Share Transactions
Effective from 1 March 2007

Note: the effective dates are in respect of accounting periods beginning on or after the date.

Notes to the Group financial statements

In this section we present the supporting notes to the Group financial statements.

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Notes to the Group 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=\$1.84 (2005 £1=\$1.83). In the case of the euro, the translation rate is £1=€1.47 (2005 £1=€1.46).

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=\$1.96 (2005 £1=\$1.73). In the case of the euro, the translation rate is £1=€1.49 (2005 £1=€1.46).

2 Segmental information

Hotels

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

The Americas;
Europe, 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 geographical 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.

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

This business, which manufactures a variety of soft drink brands with distribution concentrated mainly in the UK, was sold in December 2005.

2 Segmental information (continued)

Year ended 31 December 2006

	Americas £m	EMEA £m	Asia Pacific £m	Central £m	Total Group £m
Revenue					
Hotels					
Owned and leased	115	100	71	–	286
Managed	77	71	36	–	184
Franchised	241	35	4	–	280
Central	–	–	–	55	55
Continuing operations	433	206	111	55	805
Discontinued operations – owned and leased	30	125	–	–	155
	463	331	111	55	960
Segmental result					
Hotels					
Owned and leased	14	(5)	17	–	26
Managed	27	37	21	–	85
Franchised	208	24	3	–	235
Regional and central	(32)	(20)	(12)	(81)	(145)
Continuing operations	217	36	29	(81)	201
Discontinued operations – owned and leased	4	26	–	–	30
	221	62	29	(81)	231
Group					
			Continuing £m	Discontinued £m	Group £m
Hotels			201	30	231
Soft Drinks			–	–	–
			201	30	231
Other operating income and expenses			27	–	27
Operating profit			228	30	258
Net finance costs			(11)	–	(11)
Profit before tax			217	30	247
Tax			50	(9)	41
Profit after tax			267	21	288
Gain on disposal of assets, net of tax			–	117	117
Profit for the year			267	138	405

Notes to the Group financial statements

2 Segmental information (continued)

Year ended 31 December 2006

	Americas £m	EMEA £m	Asia Pacific £m	Central £m	Total Group £m
Assets and liabilities					
Segment assets	647	583	338	73	1,641
Non-current assets classified as held for sale	40	10	–	–	50
	687	593	338	73	1,691
Unallocated assets:					
Current tax receivable					23
Cash and cash equivalents					179
Total assets					1,893
Segment liabilities	295	234	53	–	582
Liabilities classified as held for sale	2	–	–	–	2
	297	234	53	–	584
Unallocated liabilities:					
Current tax payable					231
Deferred tax payable					79
Loans and other borrowings					313
Total liabilities					1,207
Other segmental information					
Continuing operations:					
Capital expenditure ^a	34	50	17	15	116
Additions to:					
Property, plant and equipment	116	53	9	4	182
Intangible assets	10	31	1	11	53
Depreciation and amortisation ^b	18	19	10	13	60
Reversal of previously recorded impairment	–	(2)	–	–	(2)
Discontinued operations:					
Capital expenditure ^a	1	7	–	–	8
Additions to property, plant and equipment	–	4	–	–	4
Depreciation and amortisation ^b	1	3	–	–	4
Impairment of assets held for sale	3	–	–	–	3

a Comprises purchases of property, plant and equipment, intangible assets and other financial assets and acquisitions of subsidiaries as included in the Group cash flow statement.

b Included in the £64m of depreciation and amortisation is £21m relating to administrative expenses and £43m relating to cost of sales.

2 Segmental information (continued)

Year ended 31 December 2005*

Revenue	Americas £m	EMEA £m	Asia Pacific £m	Central £m	Total Hotels £m	
Hotels						
Owned and leased	106	110	59	–	275	
Managed	65	55	25	–	145	
Franchised	213	35	3	–	251	
Central	–	–	–	42	42	
Continuing operations	384	200	87	42	713	
Discontinued operations – owned and leased	61	411	54	–	526	
	445	611	141	42	1,239	
				Continuing £m	Discontinued £m	Group £m
Group						
Hotels			713	526	1,239	
Soft Drinks			–	671	671	
Total revenue			713	1,197	1,910	
	Americas £m	EMEA £m	Asia Pacific £m	Central £m	Total Hotels £m	
Segmental result						
Hotels						
Owned and leased	14	(5)	11	–	20	
Managed	20	31	16	–	67	
Franchised	186	26	2	–	214	
Regional and central	(34)	(21)	(8)	(65)	(128)	
Continuing operations	186	31	21	(65)	173	
Discontinued operations – owned and leased	12	73	11	–	96	
	198	104	32	(65)	269	
				Continuing £m	Discontinued £m	Group £m
Group						
Hotels			173	96	269	
Soft Drinks			–	70	70	
			173	166	339	
Other operating income and expenses			(22)	–	(22)	
Operating profit			151	166	317	
Net finance costs			(24)	(9)	(33)	
Profit before tax			127	157	284	
Tax			(24)	(56)	(80)	
Profit after tax			103	101	204	
Gain on disposal of assets, net of tax			–	311	311	
Profit for the year			103	412	515	

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

Notes to the Group 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 segmental information							
Continuing operations:							
Capital expenditure ^a	22	19	28	13	82	–	82
Additions to:							
Property, plant and equipment	12	15	30	6	63	–	63
Intangible assets	27	51	9	7	94	–	94
Depreciation and amortisation ^b	19	15	8	15	57	–	57
Impairment of property, plant and equipment	–	7	–	–	7	–	7
Discontinued operations:							
Capital expenditure ^a	6	44	4	–	54	47	101
Additions to:							
Property, plant and equipment	4	33	4	–	41	36	77
Intangible assets	–	–	–	–	–	7	7
Depreciation and amortisation ^b	1	24	3	–	28	45	73

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

a Comprises purchases of property, plant and equipment, intangible assets and other financial assets and acquisitions of subsidiaries as included in the Group cash flow statement.

b Included in the £130m of depreciation and amortisation is £23m relating to administrative expenses and £107m relating to cost of sales.

3 Staff costs and Directors' emoluments

	2006 £m	2005 £m
Staff		
Costs:		
Wages and salaries	301	465
Social security costs	38	61
Pension and other post-retirement benefits:		
Defined benefit plans (note 23)	6	19
Defined contribution plans	11	15
	356	560
	2006	2005
Average number of employees, including part-time employees:		
Hotels	11,456	18,995
Soft Drinks	–	2,991
	11,456	21,986
	2006	2005
Directors' emoluments	£m	£m
Base salaries, fees, performance payments and benefits*	4.5	4.1
Gains on exercise of share options	6.7	1.7

More detailed information on the emoluments, pensions, option holdings and shareholdings for each Director is shown in the Remuneration Report on pages 31 to 39.

* Includes long-term reward of £nil (2005 £0.4m).

4 Auditor's remuneration paid to Ernst & Young LLP

	2006 £m	2005 £m
Group audit fees	0.9	1.0
Audit fees in respect of subsidiaries	1.4	2.1
Tax fees	0.7	0.6
Fees in respect of reporting under Sarbanes Oxley Act	1.0	–
Interim review fees	0.2	0.2
Other services pursuant to legislation	0.1	0.8
Corporate finance fees	0.1	1.8
Other	0.8	0.7
	5.2	7.2

Audit fees in respect of the pension scheme were not material.

The Audit Committee has a process to ensure that any non-audit services do not compromise the independence and objectivity of the external auditor 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 Group financial statements

5 Special items

	note	2006 £m	2005 £m
Other operating income and expenses*			
Gain on sale of investment	a	25	–
Reversal of previously recorded impairment	b	2	–
Impairment of property, plant and equipment	c	–	(7)
Restructuring costs	d	–	(13)
Property damage	e	–	(9)
Employee benefits curtailment gain	f	–	7
		27	(22)
Tax*			
Tax charge on other operating income and expenses		(6)	–
Special tax credit	g	100	8
		94	8
Gain on disposal of assets			
Gain on disposal of assets		123	349
Tax charge		(6)	(38)
		117	311

* Relates to continuing operations.

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

a Gain on the sale of the Group's investment in FelCor Lodging Trust, Inc.

b Relates to the reversal of impairment in value of an associate investment.

c Property, plant and equipment were written down by £7m in 2005 following an impairment review of the hotel estate.

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

e Damage to properties resulting from fire and natural disasters.

f Curtailment gain arising as a result of the sale of UK hotel properties.

g Represents the release of provisions which are special by reason of their size or incidence relating to tax matters which have been settled or in respect of which the relevant statutory limitation period has expired, together with, in 2006, a credit in respect of previously unrecognised losses.

6 Finance costs

	2006 £m	2005 £m
Financial income		
Interest income	21	28
Fair value gains	5	2
	26	30
Financial expenses		
Interest expense – Hotels	33	51
Interest expense – Soft Drinks	–	9
Finance charge payable under finance leases	4	–
	37	60
Fair value charge	–	3
	37	63

Included within the Hotels interest expense is £10m (2005 £5m) payable to the Group's loyalty programme relating to interest paid on the accumulated balance of cash received in advance of the redemption of points awarded.

7 Tax

	2006 £m	2005 £m
Income tax		
UK corporation tax at 30% (2005 30%):		
Current period	16	11
Benefit of tax reliefs on which no deferred tax previously recognised	(10)	–
Adjustments in respect of prior periods	(4)	(6)
	2	5
Foreign tax:		
Current period	72	149
Benefit of tax reliefs on which no deferred tax previously recognised	(1)	(2)
Adjustments in respect of prior periods	(94)	(19)
	(23)	128
Total current tax	(21)	133
Deferred tax:		
Origination and reversal of temporary differences	27	(3)
Changes in tax rates	(4)	(2)
Adjustments to estimated recoverable deferred tax assets	(13)	1
Adjustments in respect of prior periods	(24)	(11)
Total deferred tax	(14)	(15)
Total income tax on profit for the year	(35)	118
Further analysed as tax relating to:		
Profit before special items	53	88
Special items (note 5):		
Other operating income and expenses – gain on sale of investment	6	–
Special tax credit*	(100)	(8)
Tax (credit)/charge	(41)	80
Gain on disposal of assets	6	38
	(35)	118
The total tax (credit)/charge can be further analysed as relating to:		
Profit on continuing operations	(50)	24
Profit on discontinued operations	9	56
Gain on disposal of assets	6	38
	(35)	118

* Represents the release of provisions which are special by reason of their size or incidence relating to tax matters which have been settled or in respect of which the relevant statutory limitation period has expired, together with, in 2006, a credit in respect of previously unrecognised losses.

	2006 %	2005 %
Reconciliation of tax (credit)/charge on total profit, including gain on disposal of assets		
UK corporation tax at standard rate	30.0	30.0
Permanent differences	3.7	1.3
Net effect of different rates of tax in overseas businesses	3.5	2.9
Effect of changes in tax rates	(1.0)	(0.3)
Benefit of tax reliefs on which no deferred tax previously recognised	(3.0)	(0.1)
Effect of adjustments to estimated recoverable deferred tax assets	(0.2)	0.1
Adjustment to tax charge in respect of prior periods	(6.9)	(4.5)
Other	0.4	(0.1)
Special items and gain on disposal of assets	(36.1)	(10.7)
	(9.6)	18.6

Notes to the Group financial statements

8 Dividends paid and proposed

	2006 pence per share	2005 pence per share	2006 £m	2005 £m
Paid during the year:				
Final (declared in previous year)	10.7	10.0	46	61
Interim	5.1	4.6	18	20
Special interim	118.0	–	497	–
	133.8	14.6	561	81
Proposed for approval at the Annual General Meeting (not recognised as a liability at 31 December):				
Final	13.3	10.7	47	46

The proposed final dividend is payable on the shares in issue at 23 March 2007.

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.

On 1 June 2006, shareholders approved a share capital consolidation on the basis of seven new ordinary shares for every eight existing ordinary shares, together with a special dividend of 118p per existing ordinary share. The overall effect of the transaction was that of a share repurchase at fair value, therefore no adjustment has been made to comparative data.

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

	2006		2005	
	Continuing operations	Total	Continuing operations	Total
Basic earnings per share				
Profit available for equity holders (£m)	267	405	103	496
Basic weighted average number of ordinary shares (millions)	389	389	521	521
Basic earnings per share (pence)	68.6	104.1	19.8	95.2
Diluted earnings per share				
Profit available for equity holders (£m)	267	405	103	496
Diluted weighted average number of ordinary shares (millions) (see below)	399	399	533	533
Diluted earnings per share (pence)	66.9	101.5	19.3	93.1

	2006 millions	2005 millions
Diluted weighted average number of ordinary shares is calculated as:		
Basic weighted average number of ordinary shares	389	521
Dilutive potential ordinary shares – employee share options	10	12
	399	533

	2006		2005	
	Continuing operations £m	Total £m	Continuing operations £m	Total £m
Adjusted earnings per share				
Profit available for equity holders	267	405	103	496
Less adjusting items (note 5):				
Other operating income and expenses	(27)	(27)	22	22
Tax on other operating income and expenses	6	6	–	–
Special tax credit	(100)	(100)	(8)	(8)
Gain on disposal of assets, net of tax	–	(117)	–	(311)
Adjusted earnings	146	167	117	199
Basic weighted average number of ordinary shares (millions)	389	389	521	521
Adjusted earnings per share (pence)	37.5	42.9	22.5	38.2
Diluted weighted average number of ordinary shares (millions)	399	399	533	533
Adjusted diluted earnings per share (pence)	36.6	41.8	21.9	37.3

10 Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Plant and machinery £m	Total £m
Cost				
At 1 January 2005	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
Additions	104	82	–	186
Transfers to non-current assets classified as held for sale	(363)	(118)	–	(481)
Disposals	(2)	(31)	–	(33)
Exchange and other adjustments	(73)	(42)	–	(115)
At 31 December 2006	821	506	–	1,327
Depreciation				
At 1 January 2005	(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)
Provided	(7)	(41)	–	(48)
Transfers to non-current assets classified as held for sale	17	55	–	72
On disposals	2	28	–	30
Exchange and other adjustments	7	23	–	30
At 31 December 2006	(82)	(248)	–	(330)
Net book value				
At 31 December 2006	739	258	–	997
At 31 December 2005	1,054	302	–	1,356
At 1 January 2005	1,289	560	77	1,926

On adoption of IFRS, the Group retained previous revaluations of property, plant and equipment at deemed cost as permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards'.

At 31 December 2005, property, plant and equipment was written down by £7m following an impairment review of hotel assets based on current market trading conditions. No impairment, or subsequent reversal, was required at 31 December 2006.

The carrying value of land and buildings held under finance leases at 31 December 2006 was £93m (2005 £nil).

Notes to the Group financial statements

11 Held for sale and discontinued operations

Hotels

During the year ended 31 December 2006, the Group sold 32 hotels (2005 112 hotels), continuing the asset disposal programme commenced in 2003, and an additional 10 hotels and two associates were classified as held for sale. At 31 December 2006, four hotels (2005 26 hotels) and two associates (2005 nil) were classified as held for sale.

At 31 December 2006, an impairment loss of £3m has been recognised on the remeasurement of a property that had previously been classified as held for sale. The loss, which reduced the carrying amount of the asset to fair value less costs to sell, has been recognised in the income statement in gain on disposal of assets. Fair value was determined by an independent property valuation.

	2006 £m	2005 £m
Net assets of hotels on disposal		
Property, plant and equipment	648	1,961
Goodwill	–	20
Net working capital	(22)	1
Cash and cash equivalents	31	16
Loans and other borrowings	(10)	–
Deferred tax	(117)	(121)
Minority equity interest	(13)	–
Group's share of net assets disposed of	517	1,877
Consideration		
Current year disposals:		
Cash consideration, net of costs paid	628	1,832
Deferred consideration	10	40
Management contract value	30	82
Other	(14)	(12)
	654	1,942
Net assets disposed of	(517)	(1,877)
Other, including tax and impairment	(20)	(38)
Gain on disposal of assets, net of tax	117	27
Net cash inflow		
Current year disposals:		
Cash consideration, net of costs paid	628	1,832
Cash disposed of	(31)	(16)
Prior year disposal	23	–
	620	1,816
Assets and liabilities held for sale		
Non-current assets classified as held for sale:		
Property, plant and equipment	40	279
Associates	10	–
	50	279
Liabilities classified as held for sale:		
Deferred tax	(2)	(34)
Cash flows related to discontinued operations		
Operating profit before interest, depreciation and amortisation	34	124
Investing activities	(8)	(54)
Financing activities	(25)	(16)

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.

	2005 £m
Net liabilities of Soft Drinks on disposal	
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	8
Minority equity interest	66
Group's share of net liabilities disposed of	(65)
Consideration	
Cash consideration, net of costs paid	221
Other	(2)
	219
Net liabilities disposed of	65
Gain on disposal of assets, net of tax	284
Net cash inflow	
Cash consideration, net of costs paid	221
Cash disposed of	(1)
	220
Cash flows related to discontinued operations	
Operating profit before interest, depreciation and amortisation	115
Investing activities	(47)
Financing activities	162

	2006 £m	2005 £m
12 Goodwill		
At 1 January	118	152
Acquisition of subsidiary (note 34)	2	–
Disposals	–	(44)
Exchange and other adjustments	(11)	10
At 31 December	109	118

Goodwill arising on business combinations that occurred before 1 January 2005 was not restated on adoption of IFRS as permitted by IFRS 1.

Goodwill has been allocated to cash-generating units (CGUs) for impairment testing as follows:

	2006 £m	2005 £m
The Americas managed operations	72	82
Asia Pacific managed and franchised operations	37	36
	109	118

The Group tests goodwill for impairment annually, or more frequently if there are any indications that an impairment may have arisen. The recoverable amounts of the 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 management expectations and industry growth forecasts. The growth rates used to determine cash flows beyond five years do not exceed the average long-term growth rate for the relevant markets.

Notes to the Group financial statements

12 Goodwill (continued)

The Americas managed 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% (2005 4%). After this period, the terminal value of future cash flows is calculated based on a perpetual growth rate of approximately 3% (2005 3%). The rate used to discount the forecast cash flow is 10.5% (2005 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 15% (2005 15%). After this period, the terminal value of future cash flows is calculated based on a perpetual growth rate of approximately 4% (2005 4%). The rate used to discount the forecast cash flows is 11.0% (2005 11.0%).

With regard to the assessment of value in use, management believe that the carrying values of the CGUs would only exceed their recoverable amounts in the event of highly unlikely changes in the key assumptions.

13 Intangible assets

	Software £m	Management contracts £m	Other intangibles £m	Total £m
Cost				
At 1 January 2005	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
Additions	10	30	13	53
Acquisition of subsidiary (note 34)	1	7	–	8
Disposals	–	–	(2)	(2)
Exchange and other adjustments	(6)	(4)	(3)	(13)
At 31 December 2006	43	117	36	196
Amortisation				
At 1 January 2005	(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)
Provided	(9)	(4)	(3)	(16)
Exchange and other adjustments	3	–	1	4
At 31 December 2006	(23)	(7)	(12)	(42)
Net book value				
At 31 December 2006	20	110	24	154
At 31 December 2005	21	81	18	120
At 1 January 2005	39	–	15	54

14 Investments in associates

The Group holds six investments (2005 eight) accounted for as associates. The following table summarises the financial information of the associates.

	2006 £m	2005 £m
Share of associates' balance sheet		
Current assets	2	4
Non-current assets	50	93
Current liabilities	(5)	(9)
Non-current liabilities	(15)	(46)
Net assets	32	42
Share of associates' revenue and profit		
Revenue	22	18
Net profit	2	1
Related party transactions		
Revenue from related parties	4	3
Amounts owed by related parties	1	2

15 Other financial assets

	2006 £m	2005 £m
Non-current		
Equity securities available-for-sale	48	41
Other	48	72
	96	113
Current		
Equity securities available-for-sale	9	104
Derivatives	4	2
	13	106

Available-for-sale financial assets, which are held on the balance sheet at fair value, 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.

Derivatives, including those within trade and other payables, are held on the balance sheet at fair value. The fair value is the estimated amount that the Group could expect to receive on the termination of the agreement, taking into consideration interest and exchange rates prevailing at the balance sheet date.

Notes to the Group financial statements

	2006 £m	2005 £m
16 Inventories		
Finished goods	1	2
Consumable stores	2	1
	3	3

	2006 £m	2005 £m
17 Trade and other receivables		
Trade receivables	163	160
Other receivables	51	66
Other prepayments	23	26
	237	252

An allowance has been made for doubtful amounts of £39m (2005 £38m) in respect of trade receivables and £4m (2005 £9m) in respect of other receivables.

	2006 £m	2005 £m
18 Cash and cash equivalents		
Cash at bank and in hand	30	34
Short-term deposits	149	290
	179	324

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

	2006 £m	2005 £m
19 Trade and other payables		
Current		
Trade payables	47	84
Other tax and social security payable	26	12
Other payables	190	174
Accruals	139	186
Derivatives	-	6
Provisions (note 25)	-	6
	402	468
Non-current		
Other payables	109	107

Other payables include £180m (2005 £162m) relating to the future redemption liability of the Group's loyalty programme, of which £83m (2005 £71m) is classified as current and £97m (2005 £91m) as non-current.

	31 December 2006			31 December 2005		
	Current £m	Non-current £m	Total £m	Current £m	Non-current £m	Total £m
20 Loans and other borrowings						
Secured bank loans	4	3	7	2	36	38
Finance leases	3	94	97	–	–	–
Unsecured bank loans	3	206	209	–	374	374
Total borrowings	10	303	313	2	410	412

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. Non-current amounts include £nil (2005 £15m) repayable by instalment. Amounts shown as current are the mortgage repayments falling due within one year.

Finance leases

Finance lease liabilities, which relate to the 99 year lease on the InterContinental Boston, are payable as follows:

	2006		2005	
	Minimum lease payments £m	Present value of payments £m	Minimum lease payments £m	Present value of payments £m
Less than one year	3	3	–	–
Between one and five years	33	24	–	–
More than five years	1,745	70	–	–
	1,781	97	–	–
Less amount representing finance charges	(1,684)	–	–	–
	97	97	–	–

The Group has the option to extend the term of the lease for two additional 20 year terms. Payments under the lease step up at regular intervals over the lease term.

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 current where the loan facility expires within one year. These facilities contain financial covenants and as at the balance sheet date the Group was not in breach of these covenants.

	2006			2005		
	Utilised £m	Unutilised £m	Total £m	Utilised £m	Unutilised £m	Total £m
Facilities provided by banks						
Committed	213	944	1,157	412	751	1,163
Uncommitted	3	36	39	–	14	14
	216	980	1,196	412	765	1,177

	2006 £m	2005 £m
Unutilised facilities expire:		
within one year	86	39
after two years	894	726
	980	765

Notes to the Group financial statements

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.

The US dollar is the predominant currency of the Group's revenue and cash flows and 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 the Group matches the currency of its debt (either directly or via derivatives) to the currency of its net assets, whilst maximising the amount of US dollars borrowed.

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.

The treasury function ensures that the Group has access to sufficient funds to allow the implementation of the strategy set by the Board. At the year end, the Group had access to £944m of undrawn committed facilities. Medium and long-term borrowing requirements are met through the £1.1bn Syndicated Facility and short-term borrowing requirements are met from drawings under bilateral bank facilities. The Group is in compliance with all of the financial covenants in its loan documents, none of which is expected to present a material restriction on funding or investment policy in the near future. In addition, the Group had surplus cash of £179m which is held in short-term deposits and cash funds which allow daily withdrawals of cash. 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. Credit risk on treasury transactions is minimised by operating a policy on the investment of surplus cash that generally restricts counterparties to those with an A credit rating or better or those providing adequate security.

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 annual net interest charge by approximately £1m (2005 £1m).

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 (2005 £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 2006, the Group held interest rate swaps with notional principals of USD100m and EUR80m (2005 USD200m and EUR160m). The interest rate swaps are designated as cash flow hedges of borrowings under the syndicated loan facility and they are held on the balance sheet at fair value in 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.

Foreign currency risk The Group is exposed to foreign currency risk on income streams denominated in foreign currencies. When appropriate, the Group hedges a portion of forecast foreign currency income and asset disposal proceeds by taking out forward exchange contracts. When hedge accounting is applied, the spot foreign exchange rate is designated as the hedged risk and so the Group takes the forward points on these contracts through financial income or expense.

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

During the year, a £3m (2005 £nil) foreign exchange gain was recognised in finance income, relating to gains on forward contracts that were not classified as hedging instruments under IAS 39. During the prior year, gains of £6m were recycled to the income statement from the unrealised gains and losses reserve in respect of effective hedges.

Hedge of net investment in a foreign operation The Group designates its foreign currency bank borrowings and currency derivatives 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 income or expense and the derivatives 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 5 years £m
31 December 2006						
Cash and cash equivalents	0.0 – 5.2	(179)	(179)	–	–	–
Secured bank loans (floating)	8.5	7	7	–	–	–
Obligations under finance leases	9.7	97	–	–	–	97
Unsecured bank loans:						
Euro floating rate	4.0	54	54	–	–	–
– effect of euro interest rate swaps*	(1.0)		(54)	–	54	–
US dollar floating rate	5.7	53	53	–	–	–
– effect of US dollar interest rate swaps*	(1.2)		(51)	–	51	–
Sterling floating rate	5.6	102	102	–	–	–
Net debt		134	(68)	–	105	97
Foreign exchange contracts		(4)	(4)	–	–	–
		130	(72)	–	105	97

* These items bear interest at a fixed rate.

	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 5 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 interest rate swaps*	(0.4)		(55)	–	55	–
US dollar floating rate	4.7	162	162	–	–	–
– effect of US dollar interest rate 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.

Interest rate swaps are included in the above tables to the extent that they affect the Group's interest rate repricing risk. The swaps hedge the floating rate debt by fixing the interest rate, shown above as the effect on the debt's floating rate, on an amount equal to their notional principal, for a period of time represented by the figures in each column. The fair values of derivatives are recorded in other financial assets and other payables.

No currency swaps were held at 31 December 2006.

The future redemption liability relating to the Group's loyalty programme incurs interest at US dollar LIBOR.

An analysis of net debt by currency, including the impact of derivatives, is included in the Operating and Financial Review on page 16.

Notes to the Group financial statements

22 Financial instruments (continued)

Fair values

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

	note	2006		2005	
		Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets					
Cash and cash equivalents	18	179	179	324	324
Equity securities available-for-sale	15	57	57	145	145
Derivatives	15	4	4	2	2
Other financial assets	15	48	48	72	72
Financial liabilities					
Borrowings, excluding finance lease liabilities	20	(216)	(216)	(412)	(412)
Liabilities under finance leases	20	(97)	(97)	-	-
Derivatives	19	-	-	(6)	(6)

The fair value of cash and cash equivalents approximates book value due to the short maturity of the investments and deposits. Equity securities available-for-sale and derivatives are held on the balance sheet at fair value as set out in note 15. The fair value of other financial assets approximates book value based on prevailing market rates. The fair value of borrowings, excluding finance lease liabilities, approximates book value as interest rates reset to market rates on a frequent basis. The fair value of the finance lease liability is deemed to be its book value as the inception of the lease was shortly before 31 December 2006.

Trade and other receivables and trade and other payables are not included in the above tables as their carrying value approximates to their fair value, including the future redemption liability of the Group's loyalty programme.

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 410 (2005 400) employees, of which 220 (2005 240) are in the defined benefit section which provides pensions based on final salaries and 190 (2005 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 comparative information provided below includes movements for the Britvic Pension Plan up to the date of disposal.

The amounts recognised in the income statement are:

	Pension plans				Post-employment benefits		Total	
	UK		US		2006	2005	2006	2005
	2006	2005	2006	2005	2006	2005	2006	2005
	£m	£m	£m	£m	£m	£m	£m	£m
Recognised in administrative expenses								
Current service cost	5	19	-	-	-	-	5	19
Interest cost on benefit obligation	13	30	5	6	1	1	19	37
Expected return on plan assets	(14)	(32)	(4)	(5)	-	-	(18)	(37)
	4	17	1	1	1	1	6	19
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.

23 Employee benefits (continued)

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

	Pension plans				Post-employment benefits		Total	
	UK		US		2006 £m	2005 £m	2006 £m	2005 £m
	2006 £m	2005 £m	2006 £m	2005 £m				
Actuarial gains and losses								
Actual return on scheme assets	21	79	6	4	-	-	27	83
Less: expected return on scheme assets	(14)	(32)	(4)	(5)	-	-	(18)	(37)
	7	47	2	(1)	-	-	9	46
Other actuarial gains and losses	(12)	(67)	-	(3)	1	1	(11)	(69)
	(5)	(20)	2	(4)	1	1	(2)	(23)

The assets and liabilities of the schemes are:

	Pension plans				Post-employment benefits		Total	
	UK		US		2006 £m	2005 £m	2006 £m	2005 £m
	2006 £m	2005 £m	2006 £m	2005 £m				
Fair value of scheme assets	269	250	56	62	-	-	325	312
Present value of benefit obligations	(298)	(274)	(89)	(103)	(9)	(11)	(396)	(388)
Employee benefits liability	(29)	(24)	(33)	(41)	(9)	(11)	(71)	(76)
Comprising:								
Funded plans	(6)	(2)	(9)	(14)	-	-	(15)	(16)
Unfunded plans	(23)	(22)	(24)	(27)	(9)	(11)	(56)	(60)
	(29)	(24)	(33)	(41)	(9)	(11)	(71)	(76)

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

	Pension plans				Post-employment benefits	
	UK		US		2006 %	2005 %
	2006 %	2005 %	2006 %	2005 %		
Wages and salaries increases	4.6	4.3	-	-	4.0	4.0
Pensions increases	3.1	2.8	-	-	-	-
Discount rate	5.0	4.7	5.8	5.5	5.8	5.5
Inflation rate	3.1	2.8	-	-	-	-
Healthcare cost trend rate assumed for next year					10.0	9.0
Ultimate rate that the cost trend rate trends to					5.0	4.5

In 2017 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 2006 and 2005, 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	
	2006	2005	2006	2005
Current pensioners at 65 – male ^a	23	21	18	17
Current pensioners at 65 – female ^a	26	24	20	22
Future pensioners at 65 – male ^b	24	22	18	17
Future pensioners at 65 – female ^b	27	25	20	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 2026.

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

Notes to the Group financial statements

23 Employee benefits (continued)

	Pension plans				Post-employment benefits		Total	
	UK		US					
Movement in benefit obligation	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
Benefit obligation at beginning of year	274	600	103	88	11	11	388	699
Current service cost	5	19	-	-	-	-	5	19
Members' contributions	1	2	-	-	-	-	1	2
Interest expense	13	30	5	6	1	1	19	37
Benefits paid	(7)	(11)	(6)	(6)	(1)	(1)	(14)	(18)
Plan curtailment	-	(7)	-	-	-	-	-	(7)
Actuarial loss/(gain) arising in the year	12	67	-	3	(1)	(1)	11	69
Separation of Soft Drinks	-	(426)	-	-	-	-	-	(426)
Exchange adjustments	-	-	(13)	12	(1)	1	(14)	13
Benefit obligation at end of year	298	274	89	103	9	11	396	388

The defined benefit obligation comprises £340m (2005 £328m) arising from plans that are wholly or partly funded and £56m (2005 £60m) arising from unfunded plans.

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

	2006		2005	
	Long-term rate of return expected %	Value £m	Long-term rate of return expected %	Value £m
UK Schemes				
Equities	7.9	128	7.5	125
Bonds	4.6	123	4.2	110
Other	7.9	18	7.5	15
Total market value of assets		269		250
US Schemes				
Equities	9.5	34	9.6	38
Fixed income	5.5	22	5.5	24
Total market value of assets		56		62

The expected rate of return on assets has been determined following advice from the plans' independent actuaries and is based on the expected return on each asset class together with consideration of the long-term asset strategy.

	Pension plans				Post-employment benefits		Total	
	UK		US					
Movement in plan assets	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
Fair value of plan assets at beginning of year	250	470	62	56	-	-	312	526
Company contributions	4	45	1	2	1	1	6	48
Members' contributions	1	2	-	-	-	-	1	2
Benefits paid	(7)	(11)	(6)	(6)	(1)	(1)	(14)	(18)
Expected return on assets	14	32	4	5	-	-	18	37
Actuarial gain/(loss) arising in the year	7	47	2	(1)	-	-	9	46
Separation of Soft Drinks	-	(335)	-	-	-	-	-	(335)
Exchange adjustments	-	-	(7)	6	-	-	(7)	6
Fair value of plan assets at end of year	269	250	56	62	-	-	325	312

Normal company contributions are expected to be £7m in 2007. In addition, the Group has agreed to pay special contributions of £40m to the UK Pension Plan; £20m in 2007, £10m in 2008 and £10m in 2009.

23 Employee benefits (continued)

History of experience gains and losses:

	2006 £m	2005 £m	2004 £m	2003 £m
UK Pension plans				
Fair value of scheme assets	269	250	470	353
Present value of benefit obligations	(298)	(274)	(600)	(477)
Deficit in the scheme	(29)	(24)	(130)	(124)
Experience adjustments arising on plan liabilities	(12)	(67)	(60)	
Experience adjustments arising on plan assets	7	47	14	
US Pension plans				
Fair value of scheme assets	56	62	56	48
Present value of benefit obligations	(89)	(103)	(88)	(91)
Deficit in the scheme	(33)	(41)	(32)	(43)
Experience adjustments arising on plan liabilities	–	(3)	(5)	
Experience adjustments arising on plan assets	2	(1)	1	
US Post-employment benefits				
Present value of benefit obligations	(9)	(11)	(11)	(11)
Experience adjustments arising on plan liabilities	1	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 £76m (2005 £74m). 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.

Notes to the Group financial statements

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 shares together with, in certain cases, a matching award of free shares up to half the deferred amount. The bonus and matching shares in the 2004 and 2005 plans are deferred and released in three equal tranches on the first, second and third anniversaries of the award date. The bonus and matching shares in the 2006 plan are released on the third anniversary of the award date. Under the 2006 plan a percentage of the award (Board members – 80%; other eligible employees – 50%) must be taken in shares and deferred. Participants may defer the remaining amount on the same terms or take it in cash. The awards in all of the plans are 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 569,293^a (2005 624,508) 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. During the year, conditional rights over 4,277,550 (2005 5,173,633) shares were 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. The plan was not operated in 2006 and no options were granted in the year under the plan. The latest date that any options may be exercised is April 2015.

^a Adjusted for the share capital consolidation on 12 June 2006.

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 or 2006 and no options were granted in the year under the plan. The latest date that any options may be exercised under the three-year plan is 29 February 2008 and under the five-year plan is 28 February 2010.

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 2006 and at 31 December 2006 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 shares. As a result of this exchange, 23,195,482 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 2006, 3,678,239 (2005 4,138,482) such options were exercised, leaving a total of 4,055,674 (2005 7,909,002) such options outstanding at prices ranging from 308.48p to 593.29p for 2005 and 2006. The latest date that any options may be exercised is October 2012.

24 Share-based payments (continued)

The Group recognised a cost of £18m (2005 £17m) 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 £20m (2005 £10m).

The following table sets forth awards and options granted during 2006. No awards were granted under the Executive Share Option Plan, Sharesave Plan or US Employee Stock Purchase Plan during the year.

	Short Term Deferred Incentive Plan	Performance Restricted Share Plan
Number of shares awarded in 2006	569,293	4,277,550

In 2006 and 2005, 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:

2006	Short Term Deferred Incentive Plan	Performance Restricted Share Plan
Valuation model	Binomial	Monte Carlo Simulation and Binomial
Weighted average share price	831.0p	946.0p
Expected dividend yield		2.32%
Risk-free interest rate		4.90%
Volatility ^a		20%
Term (years) ^b	2.0	3.0

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		4.10%	4.69%
Volatility ^a		23%	28%
Term (years) ^b	2.0	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 Group financial statements

24 Share-based payments (continued)

Movements in the awards and options outstanding under the schemes are as follows:

	Short Term Deferred Incentive Plan Number of shares thousands	Performance Restricted Share Plan Number of shares thousands
Outstanding at 1 January 2005	241	7,735
Granted	625	5,174
Vested	(32)	(1,278)
Lapsed or cancelled	(5)	(997)
Outstanding at 31 December 2005	829	10,634
Granted	569	4,277
Vested	(328)	(1,395)
Lapsed or cancelled	(69)	(2,191)
Outstanding at 31 December 2006	1,001	11,325

Fair value of awards granted during the period

At 31 December 2006	894.5p	287.0p
At 31 December 2005	649.1p	117.0p

Weighted average remaining contract life (years)

At 31 December 2006	1.0	1.3
At 31 December 2005	1.1	1.2

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 2005	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
Exercised	(389)	420.5	420.5	(8,365)	308.5-619.8	438.7
Lapsed or cancelled	(310)	420.5	420.5	(175)	345.6-619.8	404.6
Options outstanding at 31 December 2006	165	420.5	420.5	14,079	308.5-619.8	482.2

Options exercisable

At 31 December 2006	-	-	-	6,002	308.5-619.8	430.2
At 31 December 2005	-	-	-	8,710	308.5-619.8	434.3

Fair value of options granted during the period

At 31 December 2005	-	164.0p
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Included within the options outstanding of the Executive Share Option Plan are options over 4,055,674 [2005 7,909,002; 2004 12,568,562] 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 969.4p. The closing share price on 29 December 2006 was 1262.0p and the range during the year was 806.7p to 1265.0p per share.

24 Share-based payments (continued)

Summarised information about options outstanding at 31 December 2006 under the share option schemes is as follows:

Range of exercise prices (pence)	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
Sharesave Plan					
420.5	165	0.8	420.5	–	–
Executive Share Option Plan					
308.5 to 353.8	735	3.5	343.3	734	343.3
353.9 to 498.0	11,396	6.5	468.1	5,033	436.2
498.1 to 619.8	1,948	7.5	616.8	235	595.0
	14,079	6.4	482.2	6,002	430.2

25 Provisions

	Hotels reorganisation ^a £m	Onerous contracts ^b £m	Total £m
At 1 January 2006	4	2	6
Income statement	(2)	–	(2)
Expenditure	(2)	(2)	(4)
At 31 December 2006	–	–	–

a Relates to the Hotels reorganisation charged to the non-operating special item in 2003.

b Primarily relates to onerous fixed lease contracts acquired with the InterContinental hotels business.

26 Deferred tax payable

	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
At 1 January 2005	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
Disposals	(126)	–	2	–	–	7	(117)
Income statement	(2)	(26)	31	(1)	16	(32)	(14)
Statement of recognised income and expense	–	–	–	1	–	(27)	(26)
Acquisition of subsidiary (note 34)	–	–	–	–	1	–	1
Exchange and other adjustments	(9)	(4)	1	2	1	2	(7)
At 31 December 2006	119	92	(89)	(14)	17	(44)	81

* Other short-term temporary differences relate primarily to provisions and accruals and share-based payments.

Notes to the Group financial statements

26 Deferred tax payable (continued)

	2006 £m	2005 £m
Analysed as:		
Deferred tax payable	79	210
Liabilities classified as held for sale	2	34
At 31 December	81	244

The deferred tax asset of £89m (2005 £123m) recognised in respect of losses includes £64m (2005 £89m) of capital losses available to be utilised against the realisation of capital gains which are recognised as a deferred tax liability and £25m (2005 £34m) in respect of revenue tax losses. Revenue losses include £1m (2005 £nil) in respect of losses which arose during a period of hotel refurbishment and which are expected to be utilised against future operating profit.

Tax losses with a value of £192m (2005 £282m), including capital losses with a value of £87m (2005 £93m), have not been recognised as their use is uncertain or not currently anticipated. These losses may be carried forward indefinitely with the exception of £1m (2005 £nil) which expires after seven years and £1m (2005 £nil) which expires after 15 years.

Deferred tax assets of £6m (2005 £19m) in respect of share-based payments, £7m (2005 £7m) in respect of employee benefits and £17m (2005 £11m) in respect of other items have not been recognised as the timing of their realisation and consequent use is uncertain or not currently anticipated and, in part, is dependent upon the outcome of EU case law. Other items include £7m (2005 £nil) which expire after nine years.

At 31 December 2006, 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)

At 31 December 2006, the authorised share capital was £160,050,000, comprising 1,400,000,000 ordinary shares of 11½p 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 2005		622	697
Issued under option schemes		1	1
Repurchased and cancelled under repurchase programmes	a	(19)	(22)
Capital reorganisation	b	(161)	(632)
Issued under option schemes		1	–
Repurchased and cancelled under repurchase programmes	a	(11)	(1)
At 31 December 2005		433	43
Share capital consolidation	c	(53)	–
Issued under option schemes		4	1
Repurchased and cancelled under repurchase programmes	a	(28)	(3)
At 31 December 2006		356	41

a 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 third of which is expected to be completed in the first half of 2007. During the year, 28,409,753 (2005 30,600,010) ordinary shares were repurchased and cancelled under the authorities granted by shareholders at general meetings held during 2003, 2004, 2005 and 2006. Of these, 11,122,753 were 10p shares in the capital of InterContinental Hotels Group PLC and 17,287,000 were 11½p shares in the capital of InterContinental Hotels Group PLC.

b 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.

c On 1 June 2006, shareholders approved a share capital consolidation on the basis of seven new ordinary shares for every eight existing ordinary shares. This provided for all the authorised ordinary shares of 10p each (whether issued or unissued) to be consolidated into new ordinary shares of 11½p each. The share capital consolidation became effective on 12 June 2006.

d Whilst the authorised share capital comprises one redeemable preference share of £50,000, following its redemption in September 2005, this redeemable preference share has not been re-issued.

The authority given to the Company at the Annual General Meeting on 1 June 2006 to purchase its own shares was still valid at 31 December 2006. A resolution to renew the authority will be put to shareholders at the Annual General Meeting on 1 June 2007.

28 IHG shareholders' equity

	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
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
Total recognised income and expense for the year	-	-	-	-	4	(22)	427	409
Issue of ordinary shares ^b	20	-	-	-	-	-	-	20
Repurchase of shares ^b	(3)	-	-	-	-	-	(257)	(260)
Transfer to capital redemption reserve	-	3	-	-	-	-	(3)	-
Purchase of own shares by employee share trusts	-	-	(47)	-	-	-	-	(47)
Release of own shares by employee share trusts	-	-	52	-	-	-	(37)	15
Equity settled share-based cost	-	-	-	-	-	-	18	18
Equity dividends paid	-	-	-	-	-	-	(561)	(561)
At 31 December 2006	66	4	(17)	(1,528)	27	(3)	2,129	678

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 11½p shares.

Shares held by employee share trusts

Comprises £16.8m (2005 £21.7m) in respect of 1.7m (2005 2.9m) InterContinental Hotels Group PLC ordinary shares held by employee share trusts, with a market value at 31 December 2006 of £21m (2005 £25m).

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.

The fair value of cash flow hedging instruments outstanding at 31 December 2006 was a £1m asset (2005 £1m).

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 derivative instruments that provide a hedge against net investments in foreign operations. On adoption of IFRS, cumulative exchange differences were deemed to be zero as permitted by IFRS 1.

During the year ended 31 December 2006, the impact of hedging net investments in foreign operations was to reduce the amount recorded in the currency translation reserve by £32m (2005 £9m). The fair value of derivative instruments designated as hedges of net investments in foreign operations outstanding at 31 December 2006 was a £3m asset (2005 £5m net liability).

Notes to the Group financial statements

29 Minority equity interest

	2006 £m	2005 £m
At 1 January	20	117
Total recognised income and expense in the year	–	15
Dividends paid to minority interests	(1)	(177)
Disposal of hotels (note 11)	(13)	–
Disposal of Soft Drinks business (note 11)	–	66
Acquisition of subsidiary (note 34)	3	–
Exchange and other adjustments	(1)	(1)
At 31 December	8	20

30 Operating leases

During the year ended 31 December 2006, £39m (2005 £62m) was recognised as an expense in the income statement in respect of operating leases.

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

	2006 £m	2005 £m
Due within one year	27	36
One to two years	21	31
Two to three years	19	25
Three to four years	14	19
Four to five years	9	14
More than five years	100	149
	190	274

The average remaining term of these leases, which generally contain renewal options, is approximately 18 years. No material restrictions or guarantees exist in the Group's lease obligations.

31 Capital commitments

	2006 £m	2005 £m
Contracts placed for expenditure on property, plant and equipment not provided for in the financial statements	24	76

32 Contingencies

	2006 £m	2005 £m
Contingent liabilities not provided for in the financial statements relate to guarantees	11	20

In limited cases, the Group may provide performance guarantees to third-party owners to secure management contracts. The maximum exposure under such guarantees is £142m (2005 £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 and hotels. 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.

33 Related party disclosures

Key management personnel comprises the Board and Executive Committee.

	2006 £m	2005 £m
Total compensation of key management personnel		
Short-term employment benefits	9.5	6.5
Post-employment benefits	0.5	0.2
Termination benefits	–	0.8
Equity compensation benefits	7.9	6.9
	17.9	14.4

There were no transactions with key management personnel during the year ended 31 December 2006 or the previous year.

34 Acquisition of subsidiary

On 1 December 2006, the Group acquired a 75% interest in ANA Hotels & Resorts Co., Ltd (subsequently renamed IHG ANA Hotels Group Japan LLC), a hotel management company based in Japan.

	Carrying values pre-acquisition £m	Fair value £m
Intangible assets	1	8
Current assets (excluding cash and cash equivalents)	4	4
Cash and cash equivalents	4	4
Trade and other payables	(3)	(3)
Current tax payable	(1)	(1)
Deferred tax payable	–	(1)
	5	11
Minority interest		(3)
Net assets acquired		8
Goodwill on acquisition		2
Consideration, satisfied in cash (including costs of £2m)		10
Cash and cash equivalents acquired		(4)
Net cash outflow		6

Management contracts acquired have been recognised as intangible assets at their fair value. The residual excess over the net assets acquired is recognised as goodwill.

The operating profit of the joint venture from the date of acquisition to the balance sheet date was not material to the Group's results. If the acquisition had occurred on 1 January 2006, Group revenue would have been £16m higher and operating profit would have been £2m higher, based on local GAAP and the pre-acquisition business structure.

35 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)

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

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

Parent company financial statements

In this section we present the balance sheet of our parent company, InterContinental Hotels Group PLC, and the related notes supporting the parent company balance sheet for 2006.

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Statement of Directors' responsibilities

In relation to the parent 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.

The Directors are responsible for preparing the parent company financial statements and Remuneration Report in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice (UK GAAP).

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

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 members of InterContinental Hotels Group PLC

In relation to the parent company financial statements

We have audited the parent company financial statements of InterContinental Hotels Group PLC for the year ended 31 December 2006 which comprise the Company balance sheet and related notes 1 to 10. 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 2006.

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' responsibilities 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) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' 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 whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business review and future developments and employees sections of the Directors' Report.

In addition we report to you if, in our opinion, 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 Highlights, Chairman's Statement, Chief Executive's Review, Operating and Financial Review, the Board and Executive Committee Statement, Directors' Report, Corporate Governance Statement, Audit Committee Report and the unaudited part of the Remuneration Report. 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 2006;
- 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; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

**Ernst & Young LLP,
Registered auditor, London.**

19 February 2007

Parent company financial statements

Company balance sheet

31 December 2006	note	2006 £m	2005 £m
Fixed assets			
Investments	3	2,767	2,767
Current assets			
Debtors	4	29	137
Creditors: amounts falling due within one year	5	(1,624)	(1,086)
Net current liabilities		(1,595)	(949)
Creditors: amounts due after more than one year	6	(102)	–
Net assets		1,070	1,818
Capital and reserves			
Called up share capital	7	41	43
Share premium account	8	25	6
Capital redemption reserve	8	4	1
Profit and loss account	8	1,000	1,768
Equity shareholders' funds		1,070	1,818

Signed on behalf of the Board

Richard Solomons

19 February 2007

No profit and loss account is presented for InterContinental Hotels Group PLC as permitted by Section 230 of the Companies Act 1985. Profit on ordinary activities after taxation amounts to £53m (2005 loss of £851m).

Notes on pages 89 to 91 form an integral part of these financial statements.

Notes to the parent 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 in the United Kingdom (UK GAAP). 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.

Bank and other borrowings

Bank and other borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. Finance costs are charged to the profit and loss account using the effective interest rate method.

Borrowings are classified as due after more than one year 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.

2 Employees and Directors

	2006	2005
Average number of employees (Non-Executive Directors)	8	8
	2006 £m	2005 £m
Staff costs	1	–

Detailed information on the emoluments, pensions, option holdings and shareholdings for each Director is shown in the Remuneration Report on pages 31 to 39.

3 Investments

	£m
At 1 January 2006 and 31 December 2006	2,767

The Company is the beneficial owner of all of the equity share capital of InterContinental Hotels Limited. The principal operating subsidiary undertakings of that company are listed in note 35 of the Group financial statements.

4 Debtors

	2006 £m	2005 £m
Amounts due from subsidiary undertakings	8	131
Corporate taxation	21	6
	29	137

5 Creditors: amounts falling due within one year

	2006 £m	2005 £m
Amounts due to subsidiary undertakings	1,624	1,086

6 Creditors: amounts falling due after more than one year

	2006 £m	2005 £m
Unsecured bank loan	102	–

The unsecured bank borrowings are under a 2009 £1.1bn Syndicated Facility. Covenants exist on this facility and as at the balance sheet date the Group and the Company were not in breach of these covenants.

Notes to the parent company financial statements

7 Share capital

	Note	Number of shares millions	£m
Authorised (ordinary shares):			
At 31 December 2005 (1,600,000,000 shares of 10p each)		1,600	160
Share capital consolidation	a	(200)	–
At 31 December 2006 (1,400,000,000 shares of 11³/₄p each)		1,400	160
Authorised (preference shares):			
One redeemable preference share (£50,000)		–	–
Allotted, called up and fully paid (ordinary shares):			
At 31 December 2005 (10p each)		433	43
Share capital consolidation	a	(53)	–
Issued under option schemes		4	1
Repurchase of shares		(28)	(3)
At 31 December 2006 (11³/₄p each)		356	41

a On 1 June 2006, shareholders approved a share capital consolidation on the basis of seven new ordinary shares for every eight existing ordinary shares. This provided for all the authorised ordinary shares of 10p each (whether issued or unissued) to be consolidated into new ordinary shares of 11³/₄p each. The share capital consolidation became effective on 12 June 2006.

The aggregate consideration in respect of ordinary shares issued under option schemes during the year was £20m (2005 £6m).

Options to subscribe for ordinary shares

	thousands
At 31 December 2005	23,483
Exercised	(8,754)
Lapsed or cancelled	(485)
At 31 December 2006	14,244
Option exercise price per ordinary share (pence)	308.5-619.8
Final exercise date	4 April 2015

The authority given to the Company at the Annual General Meeting on 1 June 2006 to purchase its own shares was still valid at 31 December 2006. A resolution to renew the authority will be put to shareholders at the Annual General Meeting on 1 June 2007.

8 Movements in reserves

	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m
At 31 December 2005	6	1	1,768
Premium on allotment of ordinary shares	19	–	–
Repurchase of shares	–	–	(257)
Transfer to capital redemption reserve	–	3	(3)
Profit after tax	–	–	53
Dividends	–	–	(561)
At 31 December 2006	25	4	1,000

9 Profit and dividends

Profit on ordinary activities after tax amounts to £53m (2005 loss of £851m).

A final dividend, declared in the previous year, of 10.7p per share was paid during the year, amounting to £46m (2005 £nil).

A special interim dividend of 118.0p per share was paid during the year, amounting to £497m.

An interim dividend of 5.1p (2005 4.6p) per share was paid during the year, amounting to £18m (2005 £20m).

A final dividend of 13.3p (2005 10.7p) per share, amounting to £47m (2005 £46m), is proposed for approval at the Annual General Meeting. The proposed final dividend is payable on shares in issue at 23 March 2007.

The audit fee for both years was borne by a subsidiary undertaking.

10 Contingencies

Contingent liabilities of £169m (2005 £446m) in respect of guarantees of the liabilities of subsidiaries have not been provided for in the financial statements.

Useful information

In this section we present a glossary of terms used in the Annual Report and Financial Statements 2006 and some analyses of our share ownership at the end of 2006.

We also provide a range of information designed to be helpful to shareholders, and contact details for the Company and for a number of service providers.

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Glossary

Adjusted	excluding the effect of special items, gain/loss on disposal of assets and any relevant tax.	IFRS	International Financial Reporting Standards.
Average daily rate	room revenue divided by the number of room nights sold. Also known as average room rate.	Interest rate swap	an agreement to exchange fixed for floating interest rate streams (or vice versa) on a notional principal.
Basic earnings per share	profit available for IHG equity holders divided by the weighted average number of ordinary shares in issue during the year.	Management contract	a contract to operate a hotel on behalf of the hotel owner.
Capital expenditure	cash expended on purchases of property, plant and equipment and purchases of intangible assets, associates and other financial assets.	Market capitalisation	the value attributed to a listed company by multiplying its share price by the number of shares in issue.
Cash-generating unit	a portfolio of similar assets that are subject to the same economic and commercial influences.	Midscale hotel	a hotel in the three/four star category (e.g. Holiday Inn, Holiday Inn Express).
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.	Net debt	borrowings less cash and cash equivalents.
Contingent liability	a liability that is contingent upon the occurrence of one or more uncertain future events.	Occupancy rate	rooms occupied by hotel guests, expressed as a percentage of rooms that are available.
Continuing operations	operations not classified as discontinued and including acquisitions made during the year.	Operating margin	operating profit before other operating income and expenses expressed as a percentage of revenue.
Currency swap	an exchange of a deposit and a borrowing, each denominated in a different currency, for an agreed period of time.	Pipeline	signed/executed agreements, including franchises and management contracts, for hotels which will enter the Group's system at a future date.
Derivatives	a financial instrument used to reduce risk, the price of which is derived from an underlying asset, index or rate.	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).
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 count	number of rooms owned, managed or franchised by IHG.
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).	Room revenue	revenue generated from the sale of room nights.
Franchisee	operator who uses a brand under licence from the brand owner (e.g. IHG).	Royalty rate	the percentage of room revenue that a franchisee pays to the brand owner for use of the brand name.
Franchisor	brand owner (e.g. IHG) who licenses brands for use by operators.	Special items	items which are disclosed separately because of their size or incidence.
Gearing	net debt expressed as a percentage of IHG shareholders' equity.	Subsidiary undertaking	a company in which the Group holds an equity stake and over which it exercises control.
Goodwill	the difference between the consideration given for a business and the total of the fair values of the separable assets and liabilities comprising that business.	System size	the number of hotels/rooms owned, managed or franchised by IHG.
Hedging	the reduction of risk, normally in relation to foreign currency or interest rate movements, by making offsetting commitments.	Total gross revenue	total room revenue from franchised hotels and total hotel revenue from managed, owned and leased hotels.
Holidex fees	charges to hotels under management and franchise agreements for the use of Holidex, IHG's proprietary reservation system.	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.
		Upscale hotel	a four/five star full-service hotel characterised by superior service (e.g. InterContinental, Crowne Plaza).
		UK GAAP	United Kingdom generally accepted accounting practice.
		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 profiles

Shareholder profile as at 31 December 2006 by type

Category of holdings	Number of shareholders	Percentage of total shareholders	Ordinary shares	Percentage of issued share capital
Private individuals	63,603	93.25	24,660,398	6.92
Nominee companies	3,979	5.84	319,528,768	89.74
Limited and public limited companies	387	0.58	4,389,904	1.23
Other corporate bodies	222	0.33	3,716,939	1.04
Pension funds, insurance companies and banks	17	0.00	3,820,040	1.07
Total	68,208	100	356,116,049	100

Shareholder profile as at 31 December 2006 by size

Range of holdings	Number of shareholders	Percentage of total shareholders	Ordinary shares	Percentage of issued share capital
1 – 199	38,790	56.87	2,617,445	0.73
200 – 499	14,620	21.43	4,728,867	1.33
500 – 999	7,767	11.39	5,457,123	1.53
1,000 – 4,999	5,891	8.64	10,874,513	3.05
5,000 – 9,999	361	0.53	2,464,002	0.69
10,000 – 49,999	375	0.55	8,361,792	2.35
50,000 – 99,999	98	0.14	7,039,036	1.98
100,000 – 499,999	192	0.28	44,941,630	12.62
500,000 – 999,999	56	0.08	40,440,812	11.36
1,000,000 – highest	58	0.09	229,190,829	64.36
Total	68,208	100	356,116,049	100

Shareholder profile as at 31 December 2006 by geographical location

Country/Jurisdiction	Percentage of issued share capital ¹
England & Wales	58.28
Scotland	8.66
Rest of Europe	8.91
USA (including ADRs)	20.95
Japan	0.89
Rest of World	2.31
Total	100

¹ The geographical distribution presented is based on an analysis of shareholdings of 150,000 or above where geographical ownership is known. These holdings account for 82.19% of total issued share capital.

Forward-looking statements

Both the Annual Report and Financial Statements 2006 and the Annual Review and Summary Financial Statement 2006 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 risks involved with the Group's reliance on the reputation of its brands and protection of its intellectual property rights; the risks relating to identifying, securing and retaining management and franchise agreements; the effect of political and economic developments; the ability to recruit and retain key personnel; events that adversely impact domestic or international travel, including terrorist incidents and epidemics such as Severe Acute Respiratory Syndrome (SARS); the risks involved in the Group's reliance upon its proprietary reservation system and increased competition from third-party intermediaries who provide reservation infrastructure; the risks involved with the Group's reliance on technologies and systems; the future balance between supply and demand for the Group's hotels; the lack of selected development opportunities; the risk of litigation; the risks associated with the Group's ability to maintain adequate insurance; the Group's ability to borrow and satisfy debt covenants; compliance with data privacy regulations; and the risks associated with funding the defined benefits under its pension plans.

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 2006 and also in any Annual Report of InterContinental Hotels Group PLC on Form 20-F for 2006 and for any subsequent year.

Investor information

Registrar

For enquiries concerning individual shareholdings and for information on a range of shareholder services please refer to the Company's Registrar, Lloyds TSB Registrars, at the address shown on the opposite page.

Electronic communication

The Company has given e-mail notification, to those shareholders who have requested it, of the availability of this Annual Report and Financial Statements, the Annual Review and Summary Financial Statement, and the Notice of Annual General Meeting (AGM), on the Company's website at www.ihg.com/shareholders

Shareholders may appoint electronically a proxy to vote on their behalf on any poll that may be held at the forthcoming AGM. Shareholders who hold their shares through CREST may appoint proxies through the CREST electronic proxy appointment service, by using the procedures described in the CREST manual.

Dividend Reinvestment Plan

The Company offers a Dividend Reinvestment Plan (DRIP). This provides the opportunity for shareholders to use their cash dividends to buy more IHG shares. For further information about the DRIP, please contact our Registrar helpline on 0870 241 3018.

Special dividend and share consolidation 2006

On 22 June 2006, the Company paid a special dividend of 118p per ordinary share to shareholders on the Register at the close of business on 9 June 2006. As approved by shareholders on 1 June 2006, the special dividend was accompanied by a consolidation of the Company's share capital, effective from 12 June 2006, whereby shareholders received seven new ordinary shares of 11 $\frac{2}{3}$ p each for every eight existing ordinary shares of 10p each held on 9 June 2006.

Share price information

Share price 2006: InterContinental Hotels Group PLC v FTSE 100



IHG year end share price

03 529p

04 647.5p

05 839.5p

06 1262p

Changes to the base cost of IHG shares

Details of all the changes to the base cost of IHG shares held since April 2003 up to September 2006, for UK Capital Gains Tax purposes, may be found on the Company's website at www.ihg.com/cgt

These cover changes associated with:

- the separation of Six Continents PLC in April 2003;
- the share consolidation associated with the special dividend paid in December 2004;
- the capital reorganisation of the Group completed in June 2005; and
- the share consolidation associated with the special dividend paid in June 2006.

American Depositary Receipts (ADRs)

The Company's shares are listed on the New York Stock Exchange in the form of American Depositary Shares, evidenced by ADRs and traded under the symbol 'IHG'.

Each ADR represents one ordinary share. All enquiries regarding ADR holder accounts and payment of dividends should be directed to JPMorgan, the authorised depositary bank, at the address shown opposite.

Form 20-F

The Company is subject to the reporting requirements of the Securities and Exchange Commission (SEC) in the US and files with the SEC an Annual Report on Form 20-F. The Form 20-F can be found on the Company's website www.ihg.com/corporate or by visiting the SEC's website at www.sec.gov/edgar.shtml

Financial calendar

2006		
Payment of special interim dividend of 118p per share		22 June
Payment of interim dividend of 5.1p per share		5 October
Financial year end		31 December
2007		
Preliminary announcement of annual results		20 February
Final dividend of 13.3p per share	Ex-dividend date	21 March
	Record date	23 March
Announcement of first quarter results		9 May
Annual General Meeting		1 June
Final dividend of 13.3p per share	Payment date	8 June
Announcement of interim results		14 August
Interim dividend	Payment date	October
Announcement of third quarter results		6 November
Financial year end		31 December
2008		
Preliminary announcement of annual results		February

For further investor information visit
www.ihg.com/investors

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For general information about the Group's business please contact the Corporate Affairs department and for all other enquiries please contact the Company Secretary – both at the above address.

Registrar

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ADR depositary

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