Great Hotels Guests Love™

IHG Annual Report and Financial Statements 2008

Highlights

Record net room additions
up **20%** at 34,757 rooms

Total hotels open under IHG brands
up **6%** to 4,186 hotels

Signings
of **98,886** rooms, 693 hotels

taking development pipeline
to **245,085** rooms, 1,775 hotels

Revenue per available room†
up **0.9%**

Total gross revenue‡ from all hotels in IHG system
up **7%** to $19.1bn

Continuing revenue
up **5%** to $1,854m°

Continuing operating profit*
up **13%** to $535m°

Adjusted continuing earnings per share
up **26%** to 117.8¢

Final dividend maintained
at **29.2¢§**

† Total system 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).

* Operating profit before exceptional items.

° Includes the benefit of four significant liquidated damages receipts totalling $33m. (No such individually significant receipts in 2007).

§ The Group's reporting currency changed from sterling to US dollars in 2008. Dividends are now determined in US dollars and converted into sterling immediately before announcement. The sterling final dividend equivalent is 20.2p per share.

Caught on camera

This year we asked our employees to take their own pictures and capture what **Great Hotels Guests Love** means to them. Our front cover features some of these.

Front cover photography:

Left: Photo by Iñaki Armada, taken at Holiday Inn Express Getafe, Madrid, Spain
"The beds are so comfortable that some days you just don't want to get out."

Centre: Photo by Amy Valentine, taken at Holiday Inn Express Salt Lake City, Utah, USA
"The hands forming a heart around the hotel sign represent the people that make Holiday Inn Express a great hotel guests love."

Right: Launch of the ANA Crowne Plaza Sleep Advantage programme in Osaka, Japan

Welcome to IHG

Great Hotels Guests Love is a guide to our actions and our way of doing business. It puts our guests at the heart of everything we do.

2008 was a challenging but good year for IHG. This Report presents a full review of our business endeavours over the last year and our approach to the future.

Chairman's statement

“2008 was a good year for IHG. We grew both sales and profits,* outperforming the industry in all our major markets, and we have been preparing the business for a tougher environment in 2009.”

Dear shareholder

PERFORMANCE

Our continuing revenue increased 5 per cent to $1.9 billion, with continuing operating profit before exceptional items of $535 million, up 13 per cent. Adjusted continuing earnings per share increased 26 per cent from 93.8 cents to 117.8 cents. We had a $132 million exceptional charge in the year. This consisted of $35 million in relation to the Holiday Inn relaunch; $19 million of cost savings-related severance charges; $96 million of non-cash asset impairments, reflecting the poorer trading environment expected in 2009; and other items including gains on asset sales, which netted to an $18 million credit.

The Board is recommending that the final dividend for 2008 is maintained at 29.2 cents per share, taking the full-year dividend to 41.4 cents per share, up 2 per cent on 2007. This converts to a sterling full-year dividend of 26.6 pence, up 29 per cent over 2007.

REPORTING CURRENCY

We changed the reporting currency of our Group accounts from sterling to US dollars with our 2008 half-year results. This means we can reflect better the Group's profile of revenues and operating profits which are largely US dollar-based. Dividends are now determined in US dollars and converted into sterling immediately before announcement.

BOARD AND EXECUTIVE COMMITTEE

Stevan Porter 1954–2008

We were all deeply saddened by the loss of Steve Porter, a Board member and President of the Americas, who passed away in August 2008 after a short illness. Under Steve's inspired leadership the Americas region has been established as a dominant force. He is greatly missed.

We must thank Richard Solomons, Finance Director, for taking on the additional role of leading the Americas region when Steve became seriously ill in July. Richard did an outstanding job, ensuring a smooth transition to Jim Abrahamson, who was appointed as our new President of the Americas in January this year. Jim joined IHG from Global Hyatt Corporation, where he was Head of Development, The Americas. Two of our Non-Executive Directors, Sir David Prosser and Robert Larson, retired from the Board in May and December 2008, respectively. I thank them for their excellent service and contribution. George Turner became Company Secretary in January 2009, taking over from Richard Winter who retires in April 2009. I thank Richard for his service over the past 15 years and wish him well for the future.

FINANCIAL POSITION AND SHAREHOLDER RETURNS

We continue with our prudent approach to managing our balance sheet. We successfully refinanced our debt facilities in May 2008, and have lowered our overall net debt position by $400 million to $1.3 billion. During the year, we continued with our existing share buyback programme, taking the total funds returned since March 2004 to more than £3.5 billion. We have deferred the remaining £30 million of the buyback programme in order to preserve cash and maintain the strength of our balance sheet.

OUTLOOK

Our solid performance in 2008 can be attributed to the exceptional efforts of all our people. Trading will undoubtedly be tough in 2009, but our strong balance sheet, resilient business model, great brands and excellent management team, led by Andy Cosslett, give me continued confidence in the future for the Group.

David Webster
Chairman

* Before exceptional items.

Chief Executive's review

"During 2008 we witnessed unprecedented events in the world economy. In spite of this, it was a good year for IHG. We benefited from our strategy to focus on franchising and managing hotels and beat our three year net rooms growth target by over 35 per cent."

BUSINESS SUMMARY

In the year, we continued to grow sales, profits* and revenue per available room (RevPAR) – the industry's main performance measure – which rose again, up 0.9 per cent globally. Throughout the year, we saw RevPAR outperformance in all our key markets, but in line with the industry we experienced a sharp downturn in the fourth quarter when our RevPAR declined 6.5 per cent. We have taken a number of actions to prepare the business for the tougher environment ahead. Sadly this has involved some redundancies across the Group.

ACCELERATED ROOMS GROWTH

We opened a record 430 hotels during 2008, including 115 hotels in the fourth quarter, when the economic conditions had worsened significantly.

We were pleased to beat our target to add 50,000-60,000 net rooms within three years and in the end we added more than 82,000 rooms to the system – a great achievement. We signed 693 hotels, 98,886 rooms, into our forward development pipeline during the year. More than 25,000 of these rooms were signed in the fourth quarter, demonstrating the continuing appetite that owners and guests have for our brands all around the world. At the same time, we continued to focus on improving quality and we removed 193 hotels from our system. Overall, we grew the number of rooms in our system by 6 per cent on a net basis.

BRAND PERFORMANCE

The $1 billion relaunch of the Holiday Inn family of brands is progressing well. Almost 300 hotels had been relaunched by the end of 2008 and feedback from guests and owners has been encouraging. The improvements will deliver a higher quality guest experience and stronger returns for hotel owners.

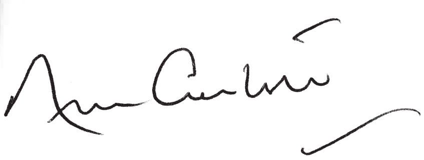
In September 2008, we entered the timeshare market through an exclusive licensing and marketing agreement, launching our Holiday Inn Club Vacations brand. We successfully continued the expansion of our brands around the world with the launch of Staybridge Suites and Hotel Indigo outside our Americas region.

ADVANTAGES OF SCALE

With almost 620,000 rooms worldwide, we can deploy our significant scale to benefit both ourselves and our hotel owners. Our reservations channels now bring in $7.6 billion of room revenues and our Priority Club Rewards members contribute $5.9 billion. We now directly generate around 60 per cent of room nights at our hotels through our system.

This year we started several projects to make more of our scale, to maximise efficiencies and drive cost savings. These include establishing a Group procurement team and consolidating several accounting processes to overseas locations. The savings will continue in 2009 and we have committed to keeping our costs below 2008 levels.

The trading environment became significantly tougher throughout 2008 and there is no doubt 2009 will be very challenging, but ours is a resilient business and our strategy remains the right one. Over the last few years, we have built confidence and momentum in the business and forged an even stronger bond with our community of outstanding owners with whom we operate our hotel system. Together we are all focused on a common goal, to create Great Hotels Guests Love and despite the poor short-term outlook, we remain confident we can deliver our ambition.



Andrew Cosslett
Chief Executive

* Before exceptional items.

Chief Executive's review continued

Questions & Answers with the Chief Executive:

Q Does IHG have the right strategy to deal with the current economic climate?

A Three years ago we made the decision to focus on franchising and managing hotels, so we are predominantly a fee-based business. The benefits of this include a more predictable income stream and high cash generation. We own fewer properties ourselves now and our growth is funded by third-party investment. This growth helps us be more resilient in a tougher economic environment as the revenue we receive from new rooms helps offset that lost from declines in RevPAR. We are confident our strategy and business model set us up well to weather the storm.

Q What is IHG doing to respond to the changing market conditions?

A Over the past few years, we have taken a number of strategic decisions to set the business up for tougher times. We have established a new procurement function to make the most of our scale, invested in technology and our reservations systems and focused our marketing spend on short-term tactical marketing and long-term brand development. We will continue to review our cost base on an ongoing basis and invest in those things that drive guests to our hotels and revenues to our owners.

Q Is IHG any more advantaged than any other hotel company?

A As one of the biggest hotel operators, we have the advantage of scale. We have a number of strong brands across different price points, in nearly 100 countries around the world. Then we have the support structure – our reservations systems and our $1 billion marketing fund – to deliver more guests to our hotels. This is why owners choose our brands.

We have a great management team to lead the business. The loss of Steve Porter has been felt widely across IHG and the industry and he will be sorely missed as a colleague and as a friend. We are delighted, however, to welcome Jim Abrahamson to the Group, who brings with him a wealth of experience of hotel operations in the Americas region.

We also have a great working relationship with our owners, both directly and through the IAHI, The Owners' Association. During these difficult times, it is even more important to work side by side with our owners so that we can deliver Great Hotels Guests Love.

7 great hotel brands

and our multi-award-winning loyalty programme, Priority Club Rewards

InterContinental Hotels & Resorts
In the Know

159 HOTELS, 54,736 ROOMS

71 HOTELS, 21,884 ROOMS IN DEVELOPMENT PIPELINE

Crowne Plaza
The Place To Meet

342 HOTELS, 93,382 ROOMS

133 HOTELS, 41,469 ROOMS IN DEVELOPMENT PIPELINE

Hotel Indigo
Escape the Mundane

22 HOTELS, 2,702 ROOMS

56 HOTELS, 7,212 ROOMS IN DEVELOPMENT PIPELINE

Holiday Inn
Relax, it's Holiday Inn

1,353 HOTELS, 249,691 ROOMS

387 HOTELS, 64,261 ROOMS IN DEVELOPMENT PIPELINE

Holiday Inn Express
Stay Smart

1,932 HOTELS, 173,794 ROOMS

719 HOTELS, 70,270 ROOMS IN DEVELOPMENT PIPELINE

Staybridge Suites
Get Comfortable

152 HOTELS, 16,644 ROOMS

166 HOTELS, 18,109 ROOMS IN DEVELOPMENT PIPELINE

Candlewood Suites
Feel Free

204 HOTELS, 20,641 ROOMS

242 HOTELS, 21,790 ROOMS IN DEVELOPMENT PIPELINE

Priority Club Rewards
It's easier. Enjoy

42 MILLION MEMBERS WORLDWIDE

Business review

In this section we present an overview of our business, including the markets in which we work, our operating environment and our strategy. We also describe the development and performance of the business during 2008, employee and environmental matters, and a description of the risks and uncertainties impacting the business.

Business review

This Business Review for the financial year ended 31 December 2008 provides a review of the business and strategy of InterContinental Hotels Group PLC (the Group or IHG), commentaries on the development and performance of the business, employee and environmental matters and a description of the risks and uncertainties impacting the business.

Business overview

Market and competitive environment

Global economic events and industry cycle

The unprecedented financial events of late 2008 and the resulting global recession are having, and will continue to have, a significant impact on IHG and the wider hotel industry. IHG's share price fell by 36% in 2008 and, although we outperformed our peers, whose aggregate share price fell by 49%, this is a major change in sentiment. We continue to monitor key trends and indicators to ensure our strategy remains well suited to the developing environment and our capabilities. In essence, we believe our business is resilient and, accordingly, our strategy remains unchanged. However, we see short-term risks in the pace of future openings, availability of debt and consumer demand. None of these factors is expected to require major change to our strategy and we remain focused on the medium to long term, while we protect short-term profitability.

It is beyond doubt that this downturn is severe, with a sharp decline in revenue per available room (RevPAR) and bookings. However, we believe we are well placed to manage through this economic situation, despite its severity. While the current downturn is unusual in its rapidity, unpredictability and degree of credit restriction, our industry has always been cyclical. Traditionally we have seen periods of five to eight years of RevPAR growth followed by up to two years of declines in RevPAR. Demand has rarely fallen for sustained periods and it is the interplay between hotel supply and demand in the industry that drives longer-term fluctuations in RevPAR. The Group's fee-based profit is partly protected from changes in hotel supply due to its model of third-party ownership of hotels under IHG management and franchise contracts. IHG profit varies more with hotel revenue (demand) than it does with hotel profit performance. We believe we are well placed over the coming year compared with competitors who own hotels, rather than simply operate them, as IHG does.

Market size

The global hotel market has an estimated room capacity of 17.5 million rooms. This has grown at approximately 2% per annum over the last five years. Competitors in the market include other large hotel companies and independently owned hotels.

The market remains fragmented, with an estimated 7.7 million branded hotel rooms (approximately 45% of the total market). IHG has an estimated 8% share of the branded market (approximately 3% of the total market). The top six major companies, including IHG, together control approximately 42% of the branded rooms, only 19% of total hotel rooms.

Geographically, the market is more concentrated with the top 20 countries accounting for 80% of global hotel rooms. Within this, the United States (US) is dominant (more than 25% of global hotel rooms) with China, Japan and Italy being the next largest markets. The Group's brands have more leadership positions (top three by room numbers) in the six largest geographic markets than any other major hotel company.

Drivers of growth

US market data historically indicates a steady increase in hotel industry revenues, broadly in line with Gross Domestic Product, with growth of approximately 1.5% per annum in real terms since 1967.

Globally, we believe demand is 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: younger generations are increasingly seeking work/life balance, with positive implications for increased leisure travel;
- increase in travel volumes as low-cost airlines grow rapidly;
- globalisation of trade and tourism;
- increase in affluence and freedom to travel within emerging markets, such as China; and
- increase in the preference for branded hotels amongst consumers.

Branded v unbranded

2007 branded hotel rooms by region as a percentage of the total market

US	69%
Europe, Middle East and Africa (EMEA)	33%
Asia Pacific	29%

Source: IHG analysis, Northstar Travel Management, Smith Travel Research (STR).

Within the global market, a relatively low proportion of hotel rooms is branded; however, there has been an increasing trend towards branded rooms. Over the last three years, the branded market (as represented by the nine major global branded hotel companies) has grown at a 3.6% compound annual growth rate (CAGR), over twice as quickly as the overall market, implying an increased preference towards branded hotels. Branded companies are therefore gaining market share at the expense of unbranded companies. IHG is well positioned to benefit from this trend. Hotel owners are increasingly recognising the benefits of working with IHG which can offer a portfolio of brands to suit the different real estate opportunities an owner may have, together with effective revenue delivery through global reservation channels. 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.

Other factors

Potential negative trends impacting hotel industry growth include the possibility of increased terrorism, environmental considerations and economic factors such as those now prevailing, namely recession and global credit restrictions.

Operating model

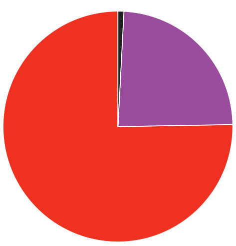
IHG's future growth will be achieved predominantly through managing and franchising rather than owning hotels. Approximately 614,000 rooms operating under Group brands are managed or franchised and 5,600 are owned and leased.

The managed and franchised fee-based model is attractive because it enables the Group to achieve its goals with limited capital investment at an accelerated pace. A further advantage is the reduced volatility of the fee-based income stream, compared with ownership of assets.

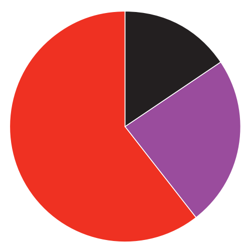
A key characteristic of the managed and franchised business is that it generates more cash than is required for investment in the business, with a high return on capital employed. Currently 85% of continuing earnings before regional and central overheads, exceptional items, interest and tax is derived from managed and franchised operations.

	BRAND	MARKETING AND DISTRIBUTION	STAFF	OWNERSHIP	IHG CAPITAL	IHG REVENUE
OWNED AND LEASED	IHG	IHG	IHG	IHG	high	all revenue
MANAGED	IHG	IHG	IHG usually supplies general manager as a minimum	third party	low/none	fee % of total revenue plus % of profit
FRANCHISED	IHG	IHG	third party	third party	none	fee % of rooms revenue

IHG global room count by ownership type at 31 December 2008



IHG continuing operating profit* by ownership type for the year ended 31 December 2008



* Before regional and central overheads, exceptional items, interest and tax.

Business relationships

IHG has major relationships with hotel owners and indirect relationships with suppliers.

IHG maintains effective relationships across all aspects of its operations. 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, IHG's largest third-party hotel owner controls less than 4% of the Group's total room count.

IHG's relationships with its suppliers will be changing as we place significant emphasis on revised procurement processes during 2009, partly in response to the macroeconomic environment. We see significant opportunities for improving effectiveness and efficiency of our buying and sourcing arrangements and will be working with suppliers to realise these benefits.

To promote effective owner relationships, the Group's management meets with owners on a regular basis. In addition, IHG has an important relationship with the IAHI – The Owners' Association. 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, with specific emphasis during 2008 on the relaunch of the Holiday Inn and Holiday Inn Express brands and our response to the economic downturn. Additionally, IHG and the IAHI are working together to develop and facilitate key Corporate Responsibility (CR) initiatives within the IHG brands.

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 revenue is derived from franchise fees, the Group's continued compliance with franchise legislation is important to the successful deployment of the Group's strategy. This could be either positive in terms of opening up new markets such as China, or negative in terms of increased liability for IHG in franchised properties.

Business review continued

Strategy

IHG's ambition

IHG seeks to deliver enduring top quartile shareholder returns, when measured against a broad global hotel peer group, by focusing on its core purpose of creating Great Hotels Guests Love.

We measure success in three ways:

- Total Shareholder Returns. (For the three-year period of 2006 to 2008, IHG was third among its peers);
- Rooms Growth – rooms added to our brands at a rate faster than competitors. (In 2008 we grew by 5.9% against an average of 4.3% for our main competitors); and
- a basket of specific key performance indicators (KPIs) aimed at delivering our core purpose, cascaded to the hotel level.

Successful performance against various combinations of these, and other, metrics drives payment of a significant percentage of senior management discretionary remuneration.

IHG's strategy

Our strategy has seen significant development through 2008 as we moved to make our core purpose a reality. We have taken a hard look at our operations and capabilities to focus on what really matters most to deliver Great Hotels Guests Love. We have backed this up with a major effort to align our people and measure the most important drivers, resulting in a clear, target-based programme within our hotels to motivate teams and guide behaviours.

Our strategy now encompasses two key aspects:

- where we choose to compete; and
- how we will win when we compete.

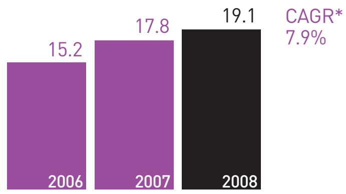
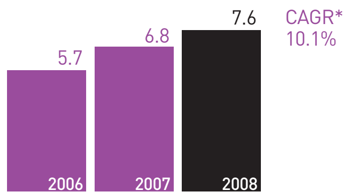
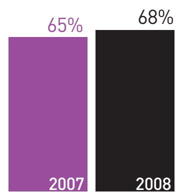
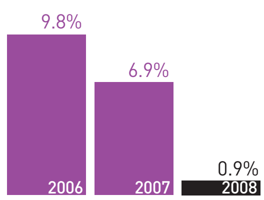
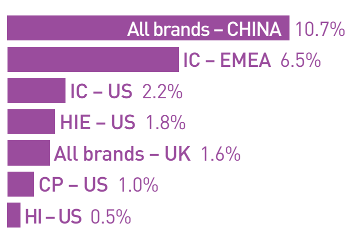
The Group's underlying 'Where' strategy is that IHG will grow a portfolio of differentiated hospitality brands in select strategic countries and global key cities to maximise our scale advantage. The 'How' aspect of our strategy flows from our core purpose and our research at the hotel level as to what really makes a difference for guests.

In support of our overall strategy there are now five key priorities – one 'Where we compete' and four 'How we win':

Where we compete

Strategic priorities	Key performance indicators (KPIs)	Current status and 2008 developments	2009 priorities
To accelerate profitable growth of our core business in the largest markets where the Group currently has scale and also in key global cities. Seek opportunities to leverage our scale in new business areas.	• Progress against the following 2008 growth targets, set in June 2005: – 50,000-60,000 net rooms growth; – 125 hotels in China; and – 15-25 net InterContinental hotel additions.	• 2008 growth targets accomplished, with exception of China where we reached 112 hotels. (Target expected to be exceeded during early 2009); • International launch of Hotel Indigo – first one open in London, UK and one signed in Shanghai, People's Republic of China; • Holiday Inn Club Vacations (franchise timeshare) conceived and launched; and • 81% of pipeline focused on core strategic countries.	• Continue international roll-out of Staybridge Suites and Hotel Indigo; • Execute growth strategies in agreed scale markets; • Continue to focus on rapid and successful opening of pipeline hotels; and • Seek ways to leverage scale and build improved strategic position during the economic downturn.

How we win

Strategic priorities	Key performance indicators (KPIs)	Current status and 2008 developments	2009 priorities
Financial returns To generate higher returns for owners and IHG through revenue delivery and improved operating efficiency.	 **Total gross revenue (TGR)** Actual US$bn  **System contribution revenue** Actual US$bn	• Increased revenue delivery through IHG global reservations channels by 10.6% to $7.6bn of global system room revenue in 2008; • Increased use of offshore transaction processing; and • Technology infrastructure developed to support owner management and loyalty marketing.	• Increase global salesforce effectiveness; • Identify and achieve major procurement savings; • Begin migration to next generation revenue management IT systems; and • Continue focus on our owned and managed estate margins and return on capital employed (ROCE), especially in our key InterContinental assets.
Our people To create a more efficient organisation with strong core capabilities.	 **Employee engagement scores** (Engagement survey commenced April 2007).	• Great Hotels Guests Love metrics defined and cascaded; • Requirement to add around 140,000 people in scale markets quantified and sourcing strategy in place; • Senior recruitment and succession planning accomplished, especially at Executive Committee level; and • General manager attraction and retention programme and systems launched.	• Ensure alignment at hotel level to IHG's core purpose of Great Hotels Guests Love; and • Increase investment in key countries to compete for talent, particularly for general managers.
Guest experience To operate a portfolio of brands attractive to both owners and guests that have clear market positions and differentiation in the eyes of the guest.	 **Global RevPAR growth** Comparable hotels, constant US$  **RevPAR growth ahead of market (%pts)**** IC: InterContinental HIE: Holiday Inn Express CP: Crowne Plaza HI: Holiday Inn	• First 274 relaunched Holiday Inn and Holiday Inn Express hotels open around the world; • InterContinental positioning success as guest satisfaction scores relating to InterContinental concierges rise in all regions; and • Industry-leading Priority Club Rewards (PCR) loyalty programme with 42 million members, contributing $5.9bn of global system room revenue, an increase of 13% over 2007.	• Roll out the Holiday Inn repositioning; • Simplify brand standards process to improve owner returns without impairing guest experience; and • Enhance experience for PCR members in hotels and across global reservations channels; increase IHG business from PCR members.
Responsible business To take an active stance on environment and community issues in order to drive increased value for IHG, owners and guests.	• As we roll out new systems, the consumption of energy and water as well as waste will be tracked in all our owned and managed hotels; we expect to report further on this next year – see Corporate Responsibility (CR) review on pages 23 and 24 for further information.	• Green Engage energy management system developed (patent pending); • Extensive consumer research undertaken to quantify 'green' opportunity with consumers; and • CR approach defined and agreed – see CR review on pages 23 and 24 for additional details.	• Roll out the Green Engage energy management system, including improved hotel construction techniques; and • Focus on innovation within new and existing brands to deliver valued 'green' related hotels and services to guests.

* CAGR – compound annual growth rate. ** Source: IHG analysis, STR and Deloitte.

Business review continued

On 30 May 2008, IHG announced its intention to change its reporting currency from sterling to US dollars reflecting the profile of its revenue and operating profit, which are primarily generated in US dollars or US dollar-linked currencies. This change was first introduced in the interim results for the six months to 30 June 2008, and these financial statements are IHG's first annual financial statements to be presented in US dollars and all comparative information has been restated accordingly.

Group performance

Group results

	12 months ended 31 December		
	2008 $m	2007 $m	% change
Revenue			
Americas	**920**	902	2.0
EMEA	**518**	492	5.3
Asia Pacific	**290**	260	11.5
Central	**126**	117	7.7
Continuing operations	**1,854**	1,771	4.7
Discontinued operations	**43**	79	(45.6)
	1,897	1,850	2.5
Operating profit			
Americas	**451**	440	2.5
EMEA	**171**	134	27.6
Asia Pacific	**68**	63	7.9
Central	**(155)**	(163)	4.9
Continuing operations	**535**	474	12.9
Exceptional operating items	**(132)**	60	–
Operating profit	**403**	534	(24.5)
Discontinued operations	**14**	17	(17.6)
	417	551	(24.3)
Net financial expenses	**(101)**	(90)	(12.2)
Profit before tax*	**316**	461	(31.5)
Analysed as:			
Continuing operations	**302**	444	(32.0)
Discontinued operations	**14**	17	(17.6)
Earnings per ordinary share			
Basic	**91.3¢**	144.7¢	(36.9)
Adjusted	**120.9¢**	97.2¢	24.4
Adjusted – continuing operations	**117.8¢**	93.8¢	25.6

* Profit before tax includes the results of discontinued operations.

Revenue from continuing operations increased by 4.7% to $1,854m and continuing operating profit before exceptional items increased by 12.9% to $535m during the 12 months ended 31 December 2008. The growth in revenues was driven by RevPAR gains in EMEA and Asia Pacific, continued expansion in China and the Middle East and the first full year of trading at the re-opened InterContinental London Park Lane. Growth was achieved in all regions in the first three quarters of the year however, the worldwide financial crisis had a significant impact on the results for the final quarter. In the fourth quarter, RevPAR declined sharply across the Group falling by 6.5% globally, although IHG's brands continued to outperform their segments in all key markets. Strong revenue conversion led to a 2.1 percentage point increase in the continuing operating profit margin to 28.9%.

Included in these results is $33m of liquidated damages received by IHG in 2008 in respect of the settlement of two management contracts and two franchise contracts, including one portfolio franchise contract. Excluding these, revenue and operating profit before exceptional items from continuing operations increased by 2.8% and 5.9% respectively.

Including discontinued operations, total revenue increased by 2.5% to $1,897m whilst operating profit before exceptional items increased by 11.8% to $549m. Discontinued operations included the results of owned and leased hotels that have been disposed of since 1 January 2007, or those classified as held for sale as part of the asset disposal programme that commenced in 2003.

The average US dollar exchange rate to sterling strengthened during 2008 (2008 $1=£0.55, 2007 $1=£0.50). Translated at constant currency, applying 2007 exchange rates, continuing revenue increased by 4.3% and continuing operating profit increased by 10.3%.

Total gross revenue

	12 months ended 31 December		
	2008 $bn	2007 $bn	% change
InterContinental	**4.1**	3.7	10.8
Crowne Plaza	**3.2**	2.8	14.3
Holiday Inn	**6.8**	6.7	1.5
Holiday Inn Express	**3.9**	3.5	11.4
Staybridge Suites	**0.4**	0.3	33.3
Candlewood Suites	**0.3**	0.3	–
Other brands	**0.4**	0.5	(20.0)
Total	**19.1**	17.8	7.3

One measure of overall IHG hotel system performance is the growth in 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 7.3% from $17.8bn in 2007 to $19.1bn in 2008, with growth levels achieved across IHG's key brands reflecting hotel performance and room growth. Translated at constant currency, total gross revenue increased by 6.2%.

Global hotel and room count

At 31 December	Hotels 2008	Hotels Change over 2007	Rooms 2008	Rooms Change over 2007
Analysed by brand				
InterContinental	**159**	10	**54,736**	3,974
Crowne Plaza	**342**	43	**93,382**	10,212
Holiday Inn	**1,353**	(28)	**249,691**	(7,008)
Holiday Inn Express	**1,932**	124	**173,794**	17,263
Staybridge Suites	**152**	30	**16,644**	3,178
Candlewood Suites	**204**	46	**20,641**	3,816
Hotel Indigo	**22**	11	**2,702**	1,201
Holiday Inn Club Vacations	**1**	1	**2,412**	2,412
Other	**21**	–	**5,849**	(291)
Total	**4,186**	237	**619,851**	34,757
Analysed by ownership type				
Owned and leased	**16**	(2)	**5,644**	(752)
Managed	**585**	46	**148,240**	13,357
Franchised	**3,585**	193	**465,967**	22,152
Total	**4,186**	237	**619,851**	34,757

During 2008, the IHG global system (the number of hotels and rooms which are owned, leased, managed or franchised by the Group) increased by 237 hotels (34,757 rooms; 5.9%) to 4,186 hotels (619,851 rooms). Openings of 430 hotels (59,353 rooms) were driven, in particular, by continued expansion in the US, the UK, the Middle East and China.

As in recent years, system size growth was driven by brands in the midscale limited service and extended stay segments, with Holiday Inn Express representing over 50% of the total net movement (124 hotels, 17,263 rooms) and Staybridge Suites and Candlewood Suites combined representing approximately 30% of total net hotel growth. The youngest brand in the IHG portfolio, Hotel Indigo, continues to grow, with 11 hotels (1,201 rooms) added during the year. In order to expand IHG's global reach, brands established in the Americas have been transitioned to other regions, with the opening of Staybridge Suites hotels in Liverpool and Cairo, the opening of the Hotel Indigo London Paddington and the signing of a management contract for a Hotel Indigo in Shanghai. As a consequence of the continued drive to increase quality through the removal of non-brand conforming hotels, the Holiday Inn hotel and room count showed a net decline (28 hotels, 7,008 rooms). This strategy is further supported by the worldwide brand relaunch of the Holiday Inn brand family, which entails the consistent delivery of best-in-class service and physical quality in all Holiday Inn and Holiday Inn Express hotels. At the year end 274 hotels were open under the updated signage and brand standards.

Global pipeline

At 31 December	Hotels 2008	Hotels Change over 2007	Rooms 2008	Rooms Change over 2007
Analysed by brand				
InterContinental	**71**	9	**21,884**	1,871
Crowne Plaza	**133**	15	**41,469**	5,107
Holiday Inn	**387**	22	**64,261**	7,316
Holiday Inn Express	**719**	7	**70,270**	128
Staybridge Suites	**166**	9	**18,109**	959
Candlewood Suites	**242**	35	**21,790**	3,185
Hotel Indigo	**56**	4	**7,212**	647
Other	**1**	–	**90**	–
Total	**1,775**	101	**245,085**	19,213
Analysed by ownership type				
Owned and leased	**1**	1	**185**	185
Managed	**300**	53	**87,941**	16,127
Franchised	**1,474**	47	**156,959**	2,901
Total	**1,775**	101	**245,085**	19,213

Global pipeline signings

	Hotels 2008	Hotels Change over 2007	Rooms 2008	Rooms Change over 2007
Total	**693**	(180)	**98,886**	(26,647)

At the end of 2008, the IHG pipeline totalled 1,775 hotels (245,085 rooms). The IHG pipeline represents hotels and rooms where a contract has been signed and the appropriate fees paid. Sometimes, a hotel will not open for reasons such as the financing being withdrawn. In the year, room signings across all regions of 98,886 rooms led to pipeline growth of 19,213 rooms. While signings were below the record level of 2007, the level of signings and pipeline growth demonstrates strong demand for IHG brands across all regions and represents a key driver of future profitability.

Business review continued

The Americas

Americas results

	12 months ended 31 December		
	2008 $m	2007 $m	% change
Revenue			
Owned and leased	**257**	257	–
Managed	**168**	156	7.7
Franchised	**495**	489	1.2
Continuing operations	**920**	902	2.0
Discontinued operations*	**43**	62	(30.6)
Total	**963**	964	(0.1)
Operating profit before exceptional items			
Owned and leased	**41**	40	2.5
Managed	**51**	41	24.4
Franchised	**426**	425	0.2
	518	506	2.4
Regional overheads	**(67)**	(66)	(1.5)
Continuing operations	**451**	440	2.5
Discontinued operations*	**14**	16	(12.5)
Total	**465**	456	2.0

* Discontinued operations are all owned and leased.

Americas comparable RevPAR movement on previous year

	12 months ended 31 December 2008
Owned and leased	
InterContinental	0.4%
Managed	
InterContinental	0.0%
Crowne Plaza	1.5%
Holiday Inn	5.4%
Staybridge Suites	2.1%
Candlewood Suites	(1.5)%
Franchised	
Crowne Plaza	(1.2)%
Holiday Inn	(1.9)%
Holiday Inn Express	0.6%

Revenue and operating profit before exceptional items from continuing operations increased by 2.0% to $920m and 2.5% to $451m respectively. Including discontinued operations, revenue decreased by 0.1% whilst operating profit before exceptional items increased by 2.0%. Included in these results is the receipt of $13m liquidated damages for one management contract.

As a result of sharp falls in occupancy, RevPAR declined across all ownership types in the fourth quarter. In the full year, the region achieved RevPAR growth across the owned and managed estates, however RevPAR declined marginally across the franchised portfolio. In the US, for comparable hotels, all brands achieved premiums in RevPAR growth relative to their applicable market segment.

Continuing owned and leased revenue remained flat on 2007 at $257m. Operating profit increased by 2.5% to $41m. Underlying trading was driven by RevPAR growth of 0.8%, with RevPAR growth in the InterContinental brand of 0.4%. The results were positively impacted by trading at the InterContinental Mark Hopkins, San Francisco, driven by robust RevPAR growth. The InterContinental New York was affected by a downturn in the market as a result of the global financial crisis, adversely impacting revenue and operating profit at the hotel.

Managed revenues increased by 7.7% to $168m during the year, boosted by the receipt of $13m in liquidated damages for one hotel that had not commenced trading. Excluding these liquidated damages, managed revenues decreased by 0.6% to $155m. Growth remained strong in the Latin America region, where rate-led RevPAR growth exceeded 15%. Offsetting this was a fall in revenues from hotels in the US, driven by RevPAR declines in the fourth quarter.

Managed operating profit increased by 24.4% to $51m. The $10m increase in profit principally reflects the $13m receipt of liquidated damages. Excluding this receipt, the managed estate experienced a $3m fall in operating profit. While the performance in Latin America resulted in growth in operating profit, this was more than offset by a decline in operating profit in the US due to a fall in occupancy rates, and a small guarantee payment for a newly opened hotel. Additional revenue investment was made to support operational standards in the region. Total operating profit margin in the managed estate increased by 4.1 percentage points to 30.4%.

Results from managed operations include revenues of $88m (2007 $86m) and operating profit of $6m (2007 $6m) from properties that are structured, for legal reasons, as operating leases but with the same characteristics as management contracts. Excluding the results from these hotels and the $13m liquidated damages, operating profit margin in the managed estate decreased by 2.2 percentage points to 47.8%.

Franchised revenue and operating profit increased by 1.2% to $495m and 0.2% to $426m respectively, compared to 2007. The increase was driven by increased royalty fees as a result of net room count growth of 4.6%. Fees associated with signings and conversions declined as a result of lower real estate activity, due to the adverse impact of the global financial crisis, and lower liquidated damages collected on hotels exiting the system.

Regional overheads were relatively flat on 2007.

Americas hotel and room count

	Hotels		Rooms	
At 31 December	2008	Change over 2007	2008	Change over 2007
Analysed by brand				
InterContinental	**55**	5	**18,502**	1,878
Crowne Plaza	**187**	15	**51,124**	3,231
Holiday Inn	**920**	(32)	**168,777**	(9,222)
Holiday Inn Express	**1,722**	107	**146,024**	11,473
Staybridge Suites	**150**	28	**16,372**	2,906
Candlewood Suites	**204**	46	**20,641**	3,816
Hotel Indigo	**21**	10	**2,638**	1,137
Holiday Inn Club Vacations	**1**	1	**2,412**	2,412
Total	**3,260**	180	**426,490**	17,631
Analysed by ownership type				
Owned and leased	**10**	(1)	**3,505**	(524)
Managed	**199**	6	**40,915**	1,219
Franchised	**3,051**	175	**382,070**	16,936
Total	**3,260**	180	**426,490**	17,631

The Americas hotel and room count grew by 180 hotels (17,631 rooms) to 3,260 hotels (426,490 rooms). The growth included openings of 332 hotels (38,198 rooms) including Holiday Inn Express openings of 170 hotels (15,547 rooms), representing 51% of all hotel openings in the Americas. A further addition to the system was the new Holiday Inn Club Vacations (1 hotel, 2,412 rooms) which gives IHG its first presence in the timeshare market. The franchised business model continues to grow in the region, with franchised hotels contributing over 97% of net growth.
Net growth also included removals of 152 hotels (20,567 rooms), with Holiday Inn hotels representing 55% (74% of rooms) of removals as the Group continued its efforts to improve quality and reinvigorate the brand.

Americas pipeline

	Hotels		Rooms	
At 31 December	2008	Change over 2007	2008	Change over 2007
Analysed by brand				
InterContinental	**7**	(1)	**2,293**	(1,429)
Crowne Plaza	**43**	6	**9,647**	611
Holiday Inn	**263**	(2)	**32,852**	(177)
Holiday Inn Express	**639**	25	**56,465**	2,186
Staybridge Suites	**154**	7	**16,678**	757
Candlewood Suites	**242**	35	**21,790**	3,185
Hotel Indigo	**55**	3	**7,032**	467
Total	**1,403**	73	**146,757**	5,600
Analysed by ownership type				
Owned and leased	**1**	1	**185**	185
Managed	**20**	(1)	**4,208**	(753)
Franchised	**1,382**	73	**142,364**	6,168
Total	**1,403**	73	**146,757**	5,600

The Americas pipeline continued at record growth levels and totalled 1,403 hotels (146,757 rooms) at 31 December 2008. During the year, 60,402 room signings were completed, compared with 75,279 room signings in 2007. Signing levels declined on the record level in 2007 as a result of lower real estate and construction activity amid the current economic outlook. Demand in the key midscale sector remained positive, representing 61% of hotel signings.

Business review continued

Europe, Middle East and Africa

EMEA results

	12 months ended 31 December		
	2008 $m	2007 $m	% change
Revenue			
Owned and leased	**240**	244	(1.6)
Managed	**168**	167	0.6
Franchised	**110**	81	35.8
Continuing operations	**518**	492	5.3
Discontinued operations*	**–**	17	–
Total	**518**	509	1.8
Operating profit before exceptional items			
Owned and leased	**45**	33	36.4
Managed	**95**	87	9.2
Franchised	**75**	58	29.3
	215	178	20.8
Regional overheads	**(44)**	(44)	–
Continuing operations	**171**	134	27.6
Discontinued operations*	**–**	1	–
Total	**171**	135	26.7

* Discontinued operations are all owned and leased.

EMEA comparable RevPAR movement on previous year

	12 months ended 31 December 2008
Owned and leased	
InterContinental	(7.8)%
All ownership types	
UK	1.2%
Continental Europe	1.6%
Middle East	20.2%

Revenue and operating profit before exceptional items from continuing operations increased by 5.3% to $518m and 27.6% to $171m respectively. Including discontinued operations, revenue increased by 1.8% whilst operating profit before exceptional items increased by 26.7%. Included in these results were liquidated damages of $9m relating to one management contract and $7m for a portfolio of franchised hotels settled during the year.

During the year, the region achieved RevPAR growth of 3.6% driven by gains across all brands operated under managed and franchise contracts. From a regional perspective, RevPAR growth in the Middle East was extremely strong at 20.2%, whilst smaller growth was experienced in Continental Europe. The region's continuing operating profit margin increased by 5.8 percentage points to 33.0%. Excluding the two liquidated damages settlements, the margin on continuing operations grew 3.7 percentage points reflecting economies of scale in the managed business and strong revenue conversion at the InterContinental London Park Lane.

In the owned and leased estate, continuing revenue decreased by 1.6% to $240m as a result of the expiry of a hotel lease in Continental Europe. The InterContinental London Park Lane, which had its first full year of trading since re-opening after refurbishment in 2007, grew strongly in revenues to a market leading position (source: STR). The InterContinental Le Grand Paris experienced tougher trading conditions leading to a RevPAR decline at the hotel. Strong revenue conversion at the InterContinental London Park Lane contributed to the continuing owned and leased operating profit increase of $12m to $45m.

EMEA managed revenue increased by 0.6% to $168m and operating profit increased by 9.2% to $95m, driven by the receipt of $9m in liquidated damages relating to the renegotiation of a management contract, which remains in the system. Excluding these liquidated damages, revenue and operating profit declined 4.8% and 1.1% respectively in 2008, as a result of mixed trading conditions in the region. Growth in the Middle East continued through the addition of new rooms and strong RevPAR growth of 20.2%. Offsetting this was a reduced contribution from a portfolio of managed hotels in the UK. A reduction in the fees associated with signing hotels to the pipeline further impacted the operating profit in the region.

Franchised revenue and operating profit increased by 35.8% to $110m and 29.3% to $75m respectively. The growth was principally driven by room count expansion and RevPAR growth in Continental Europe, with Germany and Russia showing RevPAR growth of 3.9% and 8.6% respectively. The region further benefited from the receipt of $7m of liquidated damages relating to the removal of a portfolio of Holiday Inn Express hotels in the UK.

Regional overheads were in line with 2007, with a $2m increase in costs associated with the new head office offset through further efficiencies in sales and marketing activities.

EMEA hotel and room count

At 31 December	Hotels 2008	Hotels Change over 2007	Rooms 2008	Rooms Change over 2007
Analysed by brand				
InterContinental	**64**	2	**20,836**	824
Crowne Plaza	**89**	17	**20,729**	3,403
Holiday Inn	**332**	(3)	**53,039**	197
Holiday Inn Express	**186**	4	**21,564**	2,184
Staybridge Suites	**2**	2	**272**	272
Hotel Indigo	**1**	1	**64**	64
Other	**1**	1	**203**	203
Total	**675**	24	**116,707**	7,147
Analysed by ownership type				
Owned and leased	**4**	(1)	**1,446**	(228)
Managed	**179**	8	**41,185**	2,112
Franchised	**492**	17	**74,076**	5,263
Total	**675**	24	**116,707**	7,147

During 2008, EMEA hotel and room count increased by 24 hotels (7,147 rooms) to 675 hotels (116,707 rooms). The net room growth included the opening of 10,118 rooms (62 hotels), up 27% on 2007 resulting from hotels entering the system after the high signing levels in 2006 and 2007, and the removal of 38 hotels (2,971 rooms), including the removal of a portfolio of franchised Holiday Inn Express hotels in the UK. System growth was led by openings in the UK of 21 hotels (2,460 rooms). Further significant growth occurred in the Middle East, with 11 hotel openings (2,767 rooms), compared to four hotel openings (1,013 rooms) in 2007. Holiday Inn Express was the largest contributor of room openings, adding over 36% of the region's total. Two new brands were introduced to the region during the year with the opening of Staybridge Suites hotels in Liverpool and Cairo and the Hotel Indigo London Paddington which opened in December 2008.

EMEA pipeline

At 31 December	Hotels 2008	Hotels Change over 2007	Rooms 2008	Rooms Change over 2007
Analysed by brand				
InterContinental	**28**	4	**7,062**	1,102
Crowne Plaza	**25**	–	**7,287**	989
Holiday Inn	**50**	(1)	**10,204**	658
Holiday Inn Express	**57**	(19)	**7,790**	(1,976)
Staybridge Suites	**12**	2	**1,431**	202
Other	**1**	–	**90**	–
Total	**173**	(14)	**33,864**	975
Analysed by ownership type				
Managed	**83**	13	**19,596**	4,393
Franchised	**90**	(27)	**14,268**	(3,418)
Total	**173**	(14)	**33,864**	975

The pipeline in EMEA decreased by 14 hotels, but increased by 975 rooms, to 173 hotels (33,864 rooms). The growth included 13,348 room signings, with continued strong demand for IHG brands in the Middle East, which accounted for 43% of the region's room signings. Across the region, all brands recorded positive signing levels, with demand particularly focused in the midscale sector which represented 46% of room signings. The demand for the extended stay brand, Staybridge Suites, continued with signings in line with 2007, reflecting confidence from our owners in the extended stay model imported from the Americas region.

Business review continued

Asia Pacific

Asia Pacific results

	12 months ended 31 December		
	2008 $m	2007 $m	% change
Revenue			
Owned and leased	**159**	145	9.7
Managed	**113**	99	14.1
Franchised	**18**	16	12.5
Total	**290**	260	11.5
Operating profit before exceptional items			
Owned and leased	**43**	36	19.4
Managed	**55**	46	19.6
Franchised	**8**	6	33.3
	106	88	20.5
Regional overheads	**(38)**	(25)	(52.0)
Total	**68**	63	7.9

Asia Pacific comparable RevPAR movement on previous year

	12 months ended 31 December 2008
Owned and leased	
InterContinental	7.2%
All ownership types	
Greater China	(1.6)%

Asia Pacific revenue and operating profit before exceptional items increased by 11.5% to $290m and 7.9% to $68m respectively.

The region achieved strong RevPAR growth across all brands, with the strongest growth in the owned and leased portfolio, and continued its strategic expansion in China. Good profit growth was achieved, although the continuing operating profit margin declined by 0.8 percentage points to 23.4% as a result of further investment to support expansion.

In the owned and leased estate, revenue increased by 9.7% to $159m as RevPAR growth continued at the InterContinental Hong Kong despite a slowdown during the fourth quarter. The hotel's revenue growth combined with profit margin gains drove the estate's operating profit growth of 19.4% to $43m.

Managed revenue increased by 14.1% to $113m as a result of the increased room count in Greater China and comparable RevPAR growth of 10.7% in Beijing boosted by the Olympic period. Further strong growth occurred in South East Asia with RevPAR growth of 9.9% in the region, and the joint venture with All Nippon Airways (ANA) further increased revenues. Operating profit increased by 19.6% to $55m as revenue gains were partially offset by continued infrastructure investment in China and Southern Asia.

Franchised revenues increased from $16m to $18m driven by the receipt of $4m of liquidated damages relating to the settlement of one franchise contract in the region. Excluding this receipt, operating profit declined by $2m, primarily as a result of reduced fee income in India due to the removal of non-brand compliant hotels.

After a further $5m of the previously announced $10m investment to support the launch of the ANA Crowne Plaza brand in Japan and the non-recurrence of a $2m favourable legal settlement in 2007, Asia Pacific regional overheads increased by $6m to support the rapid growth in the region.

Asia Pacific hotel and room count

	Hotels		Rooms	
At 31 December	2008	Change over 2007	2008	Change over 2007
Analysed by brand				
InterContinental	**40**	3	**15,398**	1,272
Crowne Plaza	**66**	11	**21,529**	3,578
Holiday Inn	**101**	7	**27,875**	2,017
Holiday Inn Express	**24**	13	**6,206**	3,606
Other	**20**	(1)	**5,646**	(494)
Total	**251**	33	**76,654**	9,979
Analysed by ownership type				
Owned and leased	**2**	–	**693**	–
Managed	**207**	32	**66,140**	10,026
Franchised	**42**	1	**9,821**	(47)
Total	**251**	33	**76,654**	9,979

Asia Pacific hotel and room count increased by 33 hotels (9,979 rooms) to 251 hotels (76,654 rooms). The net growth included 31 hotels (9,806 rooms) in Greater China reflecting continued expansion in one of IHG's strategic markets, including the opening of IHG's 100th hotel in the People's Republic of China, the Crowne Plaza Beijing Zhongguancun.

Asia Pacific pipeline

	Hotels		Rooms	
At 31 December	2008	Change over 2007	2008	Change over 2007
Analysed by brand				
InterContinental	**36**	6	**12,529**	2,198
Crowne Plaza	**65**	9	**24,535**	3,507
Holiday Inn	**74**	25	**21,205**	6,835
Holiday Inn Express	**23**	1	**6,015**	(82)
Hotel Indigo	**1**	1	**180**	180
Total	**199**	42	**64,464**	12,638
Analysed by ownership type				
Managed	**197**	41	**64,137**	12,487
Franchised	**2**	1	**327**	151
Total	**199**	42	**64,464**	12,638

The pipeline in Asia Pacific increased by 42 hotels (12,638 rooms) to 199 hotels (64,464 rooms). Pipeline growth was again centred on the Greater China market with 70% of the region's room signings. There was also significant demand in India, where signings more than doubled compared to 2007. From a brand perspective, Holiday Inn was the largest contributor to signings, with 39% of the region's room signings.

Central

Central results

	12 months ended 31 December		
	2008 $m	2007 $m	% change
Revenue	**126**	117	7.7
Gross central costs	**(281)**	(280)	(0.4)
Net central costs	**(155)**	(163)	4.9

During 2008, net central costs reduced by 4.9% from $163m to $155m due to the receipt of a favourable $3m insurance settlement and the impact of weaker sterling.

System funds

System fund results

	12 months ended 31 December		
	2008 $m	2007 $m	% change
Assessments	**990**	930	6.5

Hotels operated under IHG brands are, pursuant to terms within their contracts, subject to cash assessments for brand marketing, reservations systems and Priority Club membership stays. These assessments, typically based upon room revenue, are pooled within the system funds for the collective benefit of all hotels by brand or geography. The assessments are used for revenue generating activities including the costs of call centres, frequency program points, websites, sales teams, advertising and brand development and affiliate marketing programmes.

The Company acts on behalf of hotel owners with regard to the funds and all assessments are designated for specific purposes and result in no profit for the Group. Accordingly, the revenues, expenses and cash flows of the funds are not included in the Consolidated Income Statement or Consolidated Cash Flow Statement. The funds are planned to operate at breakeven with any short-term timing surplus or deficit carried on IHG's balance sheet within working capital. The Owners' Association, the IAHI, endorses the budgeted spend of the funds and provides a governance overview of the operation of the funds.

In the year to 31 December 2008, system fund assessments increased by 6.5% to $990m primarily as a result of the growth in system size and affiliate marketing programmes.

Business review continued

Other financial information

Exceptional operating items

Exceptional operating costs of $132m consisted of:

- $35m in relation to the Holiday Inn relaunch;
- $19m of cost savings-related severance costs;
- $96m of non-cash asset impairment reflecting the poorer trading environment expected in 2009; and
- other items including gains on asset sales, which netted to an $18m credit.

Exceptional operating items are treated as exceptional by reason of their size or nature and are excluded from the calculation of adjusted earnings per share in order to provide a more meaningful comparison of performance.

Net financial expenses

Net financial expenses increased from $90m in 2007 to $101m in 2008. Average net debt levels in 2008 were higher than 2007 primarily as a result of the payment of the special dividend of £709m in June 2007. Net debt levels remained stable in the first half of 2008, reducing slightly in the second half of the year.

Financing costs included $12m (2007 $21m) 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. Financing costs in 2008 also included $18m (2007 $18m) in respect of the InterContinental Boston finance lease.

Taxation

The effective rate of tax on the combined profit from continuing and discontinued operations, excluding the impact of exceptional items, was 23% (2007 22%). By also excluding the impact of prior year items, which are included wholly within continuing operations, the equivalent tax rate would be 39% (2007 36%). This rate is higher than the UK statutory rate of 28% due mainly to certain overseas profits (particularly in the US) being subject to statutory rates higher than the UK statutory rate, unrelieved foreign taxes and disallowable expenses.

Taxation within exceptional items totalled a credit of $42m (2007 $60m) in respect of continuing operations. This represented, primarily, the release of exceptional provisions relating to tax matters which were settled during the year, or in respect of which the statutory limitation period had expired, together with tax relief on exceptional costs.

Net tax paid in 2008 totalled $2m (2007 $138m) including $3m (2007 $64m) in respect of disposals. Tax paid is lower than the current period income tax charge, primarily due to the receipt of refunds in respect of prior years, together with provisions for tax for which no payment of tax has currently been made.

Earnings per share

Basic earnings per share in 2008 was 91.3¢, compared with 144.7¢ in 2007. Adjusted earnings per share was 120.9¢, against 97.2¢ in 2007. Adjusted continuing earnings per share was 117.8¢, 25.6% up on last year.

Dividends

The Board has proposed a final dividend per share of 29.2¢ (20.2p). With the interim dividend per share of 12.2¢ (6.4p), the full-year dividend per share for 2008 will total 41.4¢ (26.6p).

Share price and market capitalisation

The IHG share price closed at £5.62 on 31 December 2008, down from £8.84 on 31 December 2007. The market capitalisation of the Group at the year end was £1.6bn.

Cash flow

In response to the challenging economic environment the Group increased its focus on cash management during 2008. In the year, $641m of cash was generated from operating activities, an increase of $176m on 2007. Overall, net debt decreased by $386m to $1,273m with the other key elements of the cash flow being:

- proceeds from the disposal of hotels and investments of $86m;
- capital expenditure of $108m; and
- $139m returned to shareholders as part of the fourth share buyback programme.

As part of the focus on cash management the remaining £30m of the fourth £150m share buyback programme has been deferred.

Capital structure and liquidity management

Net debt at 31 December 2008 was $1,273m and included $202m in respect of the finance lease commitment for the InterContinental Boston.

Net debt at 31 December	2008 $m	2007* $m
Borrowings:		
Sterling	**152**	553
US dollar	**889**	882
Euro	**224**	243
Other	**90**	98
Cash	**(82)**	(117)
Net debt	**1,273**	1,659
Average debt levels	**1,498**	1,075

* Including the impact of currency derivatives.

Facilities at 31 December	2008 $m	2007 $m
Committed	**2,107**	2,321
Uncommitted	**25**	50
Total	**2,132**	2,371

Interest risk profile of gross debt for major currencies at 31 December	2008 %	2007 %
At fixed rates	**53**	45
At variable rates	**47**	55

In the second quarter, the Group successfully refinanced $2.1bn of long-term debt facilities. The new syndicated bank facility consists of two tranches, a $1.6bn five-year revolving credit facility and a $0.5bn term loan with a 30-month maturity. Terms are broadly unchanged from the previous facility.

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.

Further information on the Group's treasury management can be found in note 21 on pages 79 and 80 in the notes to the Group Financial Statements 2008.

Return of funds programme

	Timing	Total return	Returned to date	Still to be returned
£501m special dividend	Paid in December 2004	£501m	£501m	Nil
First £250m share buyback	Completed in 2004	£250m	£250m	Nil
£996m capital return	Paid in July 2005	£996m	£996m	Nil
Second £250m share buyback	Completed in 2006	£250m	£250m	Nil
£497m special dividend	Paid in June 2006	£497m	£497m	Nil
Third £250m share buyback	Completed in 2007	£250m	£250m	Nil
£709m special dividend	Paid in June 2007	£709m	£709m	Nil
£150m share buyback	Under way	£150m	£120m	£30m
Total		**£3,603m**	**£3,573m**	**£30m**

During the year, IHG returned $139m to shareholders through share buybacks, taking the total returned since March 2004 to more than £3.5bn. In November 2008 the remaining £30m of the fourth share buyback programme was deferred in order to preserve cash and maintain balance sheet strength. The return of funds programme is denominated in sterling as all returns were determined prior to the change to US dollar reporting.

Business review continued

Our people

IHG directly employed an average of 8,334 people worldwide during 2008 whose costs are borne by the Group. When the whole IHG estate is taken into account (including staff working in the managed and franchised hotels) approximately 330,000 people are employed globally across IHG's brands. Unless otherwise stated any data in this section relates to the people directly employed by IHG and those who work in managed hotels or as part of our joint venture with All Nippon Airways (ANA) in Japan – in total approximately 110,000 people.

Our employment offer

One of our key challenges is to attract, retain and inspire people to deliver our core purpose, Great Hotels Guests Love. Over the past two years, the Group has also developed a very clear articulation of our values, the behaviours expected from all employees and a set of standards that characterise what employees can expect from IHG. These are described below and form the deal between IHG and everyone who works with the Group.

Winning Ways

What we ask: Live our Winning Ways

Winning Ways, a set of behaviours that defines how IHG interacts with guests, colleagues and hotel owners was developed in 2006 and integrated into the business in 2007. IHG's people have embraced these behaviours with enthusiasm and creativity worldwide.

Do the right thing

We always do what we believe is right and have the courage and conviction to put it into practice, even when it might be easier not to. We are honest and straightforward and see our decisions through.

Show we care

We want to be the company that understands people's needs better than anyone else in our industry. This means being sensitive to others, noticing the things that matter and taking responsibility for getting things right.

Aim higher

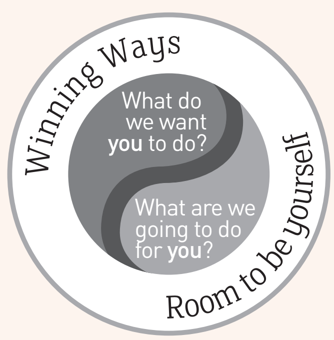
We aim to be acknowledged leaders in our industry, so we have built a team of talented people who have a real will to win. We strive for success and value individuals who are always looking for a better way to do things.

Celebrate difference

We believe that it's the knowledge of our people that really brings our brands to life. While other companies may want to impose a rigid, uniform view of the world, we do not. Our global strength comes from celebrating local differences whilst understanding that some things should be kept the same.

Work better together

When we work together we are stronger. We're at our best when we collaborate to form a powerful, winning team. We listen to each other and combine our expertise to create a strong, focused and trusted group of people.



Room to be yourself

What we offer: Room to be yourself

While Winning Ways define what is expected from all employees at IHG, the Group has also developed standards that characterise what employees can expect from IHG. Four promises encompass the IHG commitment, internally called Room to be yourself and describe the work environment that employees can rely on at IHG.

Room to have a great start

You will be treated with respect and we will make sure you have everything you need to have a great start.

Room to be involved

You will have the opportunity to work with great teams, know what is going on and make a real difference in your workplace.

Room to grow

You will be supported and given opportunities to develop yourself and pursue a rewarding career.

Room for you

You will be rewarded and recognised for your contributions and we will value the significance of your life beyond work.

IHG's commitment to its people: Room to be yourself

In 2008, IHG focused on delivering Room to be yourself to employees. People processes have been aligned to ensure that we can meet the required set of standards and the key achievements over the past year are outlined below.

Room to have a great start

IHG has developed and rolled out an online recruitment system to attract and match candidates to job vacancies. Over 380,000 CVs were posted to the site during the last year and nearly 8,000 people were appointed as a result of their online applications. The site has recently been developed to highlight a number of key roles, including hotel general manager, to help us to recruit where we have a particular need.

As a way of increasing recruitment from a variety of sources, IHG has a number of employee referral schemes which encourage employees to refer a contact as a potential employee. In the Americas region, 42% of our vacant positions are filled through referrals which is 10% greater than benchmark organisations (source: Recruiting Roundtable/Corporate Executive Board). Future plans to introduce a global scheme are under way and will be launched during 2009.

Room to be involved

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. The Group has expanded the capability of the corporate intranet site, 'Merlin', which now provides continuous access to information about people, policies and news across all hotels, corporate offices and reservations centres.

Regular employee feedback is obtained to ensure that IHG meets expectations and delivers on its commitments. The Group conducts a twice-yearly survey that measures employee opinion and attitudes. This survey covers employees in owned and managed hotels, corporate offices and reservations centres. We have not reported the survey data on our joint venture partners.

Since the first survey in 2007 we have continued to achieve very high response rates with over 90,000 employees participating in the November 2008 survey.

Division/region	2008 response rates %	2007 response rates %
Americas hotels	**89**	81
EMEA hotels	**86**	83
Asia Pacific hotels	**93**	90
Corporate offices	**88**	77
Reservation centres	**87**	81

IHG's key measure from the survey is the engagement index, constructed from a set of questions which measure employee advocacy, retention and effort. During 2008, IHG's engagement index improved by 3 percentage points to 68%. The survey also reported that nine out of 10 people are proud to work for IHG and 87% of employees would recommend IHG as a good place to work. This is 27 percentage points higher than the external benchmark data (source: TNS).

The survey highlights that initiatives undertaken during the year on Winning Ways and Room to be yourself are strongly correlated to employee engagement.

Room to grow

To meet the demands of growth and to deliver IHG's core purpose, Great Hotels Guests Love, IHG continues to focus on attracting, developing and retaining talent.

During 2008, a review of the Group's 1,100 corporate managers and hotel general managers was conducted to identify skills required for the future and how to develop individuals. The outcome was increased clarity around our talented individuals, their key development needs and the ability to move these individuals into the positions which will enable them to enhance their skills and meet IHG's key objectives.

In China, we have established a number of initiatives as part of our focus on recruiting talented individuals to support the anticipated number of openings over the next few years. We have introduced a number of fast-track programmes aimed at bringing in professionals from human resources and finance backgrounds to support our growth plans. We have also developed the IHG Academies in partnership with a number of educational bodies to provide training to students to equip them with skills required by the hotel industry. These Academies operate in 10 locations, are supported by 24 partners in the region and, in October 2008, had 4,200 students enrolled on one of these programmes.

We have also developed plans for Academies in parts of Europe and the Middle East. In conjunction with our franchisee in Panama, we have opened a school to teach our employees the skills required in all aspects of hotel management, particularly in areas of skills shortage such as food and beverage management. We also continue to provide an extensive range of training to our employees including e-learning curricula from respected business schools such as Cornell University in the US.

During the year, IHG continued to place importance on the growth and development of its people in the owned and managed hotels, and within its corporate and reservations offices, and ensured training programmes were available to all of its employees. The Group's internal survey indicates that 82% of employees agree that IHG delivers training to assist with their current roles.

In support of the 'Holiday Inn refresh' programme, IHG embarked upon an intensive and comprehensive training programme entitled 'Stay Real' to ensure that all employees working in a Holiday Inn or Holiday Inn Express hotel receive training to help them deliver the service experience expected by guests. The programme of training will last until December 2009 and, by the end of 2008, 74% of all Holiday Inn hotels had received the training which continues to receive excellent reviews from those attending.

We have leveraged technology by introducing a learning management system to help employees find and book the training and development they require. A number of online programmes have been introduced to help people learn flexibly and develop their skills in the workplace rather than attend courses in classrooms.

IHG has a number of development programmes in place to support its managers in hotels and corporate offices to deliver Great Hotels Guests Love. These include the assessment of individual potential and capability, together with clarity on expectations and business-related education. During 2008, 209 senior managers attended the latest stage of IHG's senior leadership programme, concentrating on the role that leaders play in driving performance and results through people.

Business review continued

In December 2008, an online leadership development system was launched providing cost-effective and high-quality development and communication to all of our senior leaders. The 'Leaders Lounge', as the site is known, provides input from the Chief Executive and the Executive Committee on key issues and challenges for the business as well as inputs from external business thinkers.

The succession planning process for senior leadership roles has continued in 2008, enabling IHG to manage changes in leadership. In addition to a number of planned internal senior appointments, IHG has also recruited externally for several key positions to ensure that the Group brings in the best people to contribute to our development in the longer term.

Room for you

IHG's compensation and benefits programmes are designed to be competitive and to recognise and reward achievement. The benefits offered to employees vary according to region. IHG contributes to both mandatory and company-sponsored retirement plans to ensure benefits are competitive within each local market. IHG's employee survey indicates that the majority of employees believe they are fairly paid for the work they do.

The Group offers a range of benefits that are aimed at helping employees to achieve a better work/life balance. Healthcare is provided to some staff groups and, in our Americas region, programmes are in place to help employees maintain a healthy lifestyle and also reduce the cost of health insurance claims. In some regions employee assistance programmes offer a confidential counselling service to help employees deal with financial and legal matters, relationship problems and stress.

An online performance management system was launched for selected groups of employees which enables them to align their objectives to IHG's strategy and review their performance. The Group also encourages managers to acknowledge employee achievements or contributions as part of our Winning Ways culture.

Celebrating 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 and this principle is embedded in IHG's Winning Ways.

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 a suitable alternative position.

IHG won two of the 16 awards at the UK's Springboard Awards for Excellence 2008 in Hospitality, Leisure, Travel and Tourism: The Holiday Inn Kensington Forum picked up the award for Diversity in Employment, recognising our highly integrated approach to recruiting disabled people. Working in partnership with Jobcentre Plus, Remploy, RNIB (Royal National Institute of Blind People) and the Shaw Trust, IHG conducted targeted recruitment drives specifically designed to encourage diversity in employment and attract people with disabilities into the hospitality industry. Disability Open Days helped to build awareness and self-confidence, and pre-work training and job trials matched people to jobs that would suit them, resulting in filling 21 vacancies and providing another 19 work placements.

The Holiday Inn Coventry received the award for the Best Initiative to Attract Chefs, for working with ex-offenders to tap into a new pool of talent. A comprehensive 16-week chef development programme was implemented in prisons in the Midlands, resulting in employment within our hotels and by other local employers. This has made a positive difference to the individuals concerned and their families, and to the industry and the wider community by reducing re-offending and related costs, as well as helping with IHG's own recruitment programme.

External recognition

During the year, IHG won a number of prestigious awards in recognition of its people management and HR practices. The Company won the Employer Branding award, sponsored by Peer Group Communications, at the Personnel Today Awards 2008.

IHG was declared Britain's Most Admired leisure and hospitality company for the second year running. The award is from Britain's longest running and most respected business awards programme, Management Today's Britain's Most Admired Companies Awards 2008. IHG was also the 14th Most Admired Company overall, up from 17th last year.

In addition, one of our employees was recognised for her contribution to the HR profession. Ghadir Zohny, Assistant Personnel Manager & Training Co-ordinator from Crowne Plaza Resort Sharm El Sheikh in Egypt, was awarded HR Person of the Year at the Hotelier Middle East Awards 2008.

Economic conditions

The trading environment changed in October 2008 and regretfully a limited redundancy programme was put in place, affecting corporate teams in the UK, Atlanta and Singapore, to ensure the business operates cost effectively during the economic downturn. As these were largely structural changes, voluntary redundancies were not sought and all opportunities to mitigate job losses were explored. Outplacement services were offered to those affected to provide support to the individuals and access to external job opportunities.

In addition to the redundancy programme, in December 2008 the Board determined that there would be a pay freeze for all grades during 2009 except in areas of the world where inflation rates would make this difficult to sustain.

Ensuring health and safety

IHG applies high standards of health and safety for the benefit of all employees and guests. The Group strives to provide and maintain a safe environment for all employees, customers and other visitors to its premises and requires all parties to comply with relevant health and safety legislation. Further information can be found on page 25 of this Business Review, the Corporate Reputation section of the Annual Review and Summary Financial Statement 2008 and in the online Corporate Responsibility Report at www.ihg.com/responsibility

Corporate responsibility

Corporate Responsibility (CR) is a key issue for IHG and deserves the same level of attention and business acumen as other areas of the business. Acting in a responsible manner and doing good goes beyond our legal obligations. It helps us to create value for the business and build competitive advantage. It is key to attracting people to work for us and it helps us to define our business strategy.

Our approach

Following consideration by the Board in 2008, IHG has established a new CR Committee to review and advise on matters relating to:

- the environment;
- community and social investment; and
- policies relating to Corporate Responsibility.

We endeavour to make responsible choices, considering the social, economic, ethical and environmental impact of our operations whilst ensuring delivery of our core purpose, Great Hotels Guests Love.

This approach shapes IHG's response to challenges such as global climate change. Integrating corporate responsibility objectives into our business has also provided opportunities to be more innovative in how we manage our challenges.

IHG's CR strategy focuses on two key areas:

- the environment, including reducing our carbon footprint. We are aiming to make a night's stay with IHG more carbon efficient; and
- our communities, including concentrating on the creation of local economic opportunity and charitable work.

Review of 2008

Over the past year we have measured our environmental impacts, surveyed general managers about what they do to help their communities, innovated new and better ways to design, construct and operate our hotels

To help us align our CR agenda with Great Hotels Guests Love, we carried out consumer research to understand what really makes a difference to our guests. Additionally, our general managers were surveyed to establish the activities undertaken to support their local communities.

We asked our hotel owners about the issues of 'responsible' tourism and respecting local communities. We also worked with them and partner organisations such as Harvard University, Cornell University and National Geographic to develop a rounded view of how we should approach CR in a meaningful way. We are implementing policies to cover the environment, communities and human rights. To reinforce these policies, we are helped by a steering group of senior executives and we have communicated our CR work generally through our online CR Report.

An important element of our CR strategy was the launch of our innovative online programme entitled Green Engage. This is an industry-leading educational and measurement system which enables owners, operators and managers to make environmentally friendly and sustainable improvements to the design, construction and operation of their hotels. There were several important reasons behind the development of Green Engage. One is the principle that IHG should innovate in order to reduce its carbon footprint rather than just offset it. Over time, having reduced as much of our carbon impact as practicable through innovation, we shall seek the most effective means to offset any remaining carbon. This system is also designed to guide our hotels on what a 'green' hotel is and what they can do to save energy costs.

The changes recommended through Green Engage are designed to please customers, who we know care about our approach to corporate responsibility issues, as well as hotel owners who can reduce energy costs through more efficient operating methods.

Green Engage will continue to be supported by our dedicated Green Aware training, which offers managers and staff practical advice on 'green' changes that they can make immediately.

We will continue to test our learning about 'greener' hotels through our award-winning online Innovation Hotel which allows visitors online to provide us with their feedback and challenge our learning in this area.

IHG recognises that to be successful we must invest in people, treat them fairly and create local economic opportunity for our employees and business partners as well as the communities in which we operate around the world. This is all the more important in difficult economic conditions. The IHG Academies programme, started in China, demonstrates successful investment in our communities. The programme works by IHG forming partnerships with a number of educational bodies to equip students with hotel-specific skills.

IHG's CR progress over the last 12 months was recognised by the Institute of Chartered Secretaries and Administrators in October 2008, when the Group won the award for Most Innovative Approach to Corporate Social Responsibility. The award commended IHG's overall stakeholder engagement programme, including its first comprehensive online CR Report and the Innovation Hotel website tool, as well as its progress in corporate reporting.

Code of Ethics

Among the Group's core values is the concept that all employees should have the courage and conviction to do what is right. The Group's global Code of Ethics and Business Conduct consolidates and clarifies expected standards of behaviour and communicates the ethical values of the Group. It states clearly that IHG's reputation is built upon the trust and confidence of our stakeholders and is fundamental to our operations worldwide. A Confidential Disclosure Channel also provides employees with a means to report any ethical concerns they may have. The Code is applicable to all employees and is available on the Company's website at www.ihg.com/investors under corporate governance.

Business review continued

The following table outlines IHG's overall CR priorities, developments and achievements during the year and priorities for 2009.

CR priorities	2008 developments and achievements	2009 priorities
Building the base for delivery	• Decided to establish a CR Committee of the Board to advise on CR; and • Updated our online CR Report for 2008, following the Global Reporting Initiative (GRI) guidelines.	• Improve internal and external CR communication through our CR communications plan. Our communications strategy includes maintaining and extending the CR Report and Innovation Hotel websites; • Continue to update our CR strategy and ensure that it is integrated with IHG's corporate objectives; • Implement the Board CR Committee arrangements; • Update key policies as and when necessary; and • Continue to build on our stakeholder partnerships.
Engaging hotels and brands	• Continued the integration of CR considerations into brand strategies, including the design of an environmentally-friendly prototype hotel which requires less construction material; • Developed our CR guidance for our hotels and owners with the introduction of our online sustainability system Green Engage; and • Completed our major consumer insight market research project – we now have an in-depth understanding of our guest attitudes and behaviour regarding CR actions.	• Further integrate CR strategy in the brand planning process and commercialise innovations; • Ensure that owners and general managers are aware of best practice systems available to them: specifically, the Green Engage online sustainability system and the Green Aware training programme; • Continue to update our online sustainable hotel guidelines – Green Engage; and • Refresh our general managers' community involvement survey and use the findings to refine our approach to community support.
Aligning global environmental initiatives	• Rolled out our online system to 74% of our owned and managed hotels, enabling IHG to measure the use of energy, water and waste in our hotels across the globe; • Evaluated and communicated the results of our Carbon Footprint research and set a target based on our findings – we are aiming to make a night's stay with IHG more carbon efficient; • Implemented a range of environmental initiatives at IHG's corporate offices, including energy-efficient lighting and window tinting, sustainable furniture and materials as well as solar panels and improved recycling; and • In conjunction with IHG's Americas franchise team, IHG was the first hotel group to be selected to participate in the US Department of Energy initiative, which aims to build hotels that are up to 50% more energy efficient than current buildings.	• Use the globally comparable data from our 2008 measurement to enable IHG to set benchmarks for our hotels for their energy, waste and water reduction efforts; • Roll out our new online sustainability system, Green Engage, across the globe to integrate 'green' objectives at corporate and hotel level; • Progress our CR target – to make a night's stay with IHG more carbon efficient; • Build on our corporate office sustainability innovations, with the development of the on-site 'Green Room' to test concepts and better communicate what IHG is doing; and • Continue our research on hotel energy efficiency with the US Department of Energy.
Supporting local communities	• IHG has a long tradition of community support which is continuing to evolve. In 2008, hotel general managers were surveyed for details of activities undertaken to support their local communities. It is estimated that all IHG hotels provided as much as $34m in community support in 2008; and • IHG developed plans for Academies in parts of Europe and the Middle East, to equip local students with skills required by the hotel industry.	• Develop a more globally integrated approach to our local economic development initiatives across all our operating regions; and • Based on our general managers' survey results, develop guidance for our corporate, regional and hotel community activities.

For more information please visit our corporate responsibility website at www.ihg.com/responsibility and the Innovation Hotel at www.ihg.com/innovation

Managing risk

Process and framework

IHG has an established risk management process and framework embedded in all regions. The long-term strategic goals are aligned with the IHG core purpose Great Hotels Guests Love and include these key elements:

- safety and security of guests, employees and other third parties;
- brand strength supported by operational excellence in risk management at all hotels and corporate locations; and
- maintenance and promotion of the reputation of the Company.

Our approach has been to enable and support hotel owners, staff and corporate functions to manage risk effectively. This is accomplished by giving them a systematic approach and framework to follow and by providing them with tools to do the job.

The Risk Management function aims to share specialist knowledge and capability globally.

Safety and security in hotels

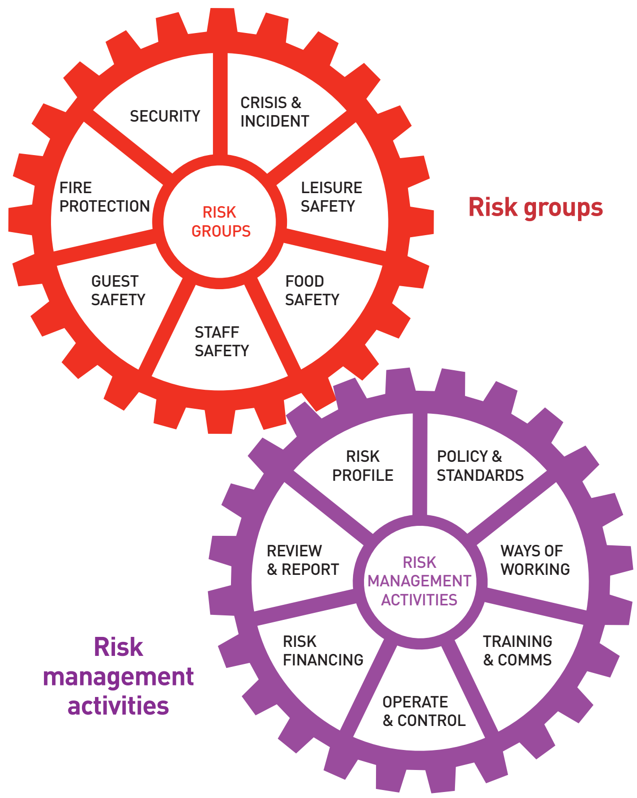
A strategic framework for hotel safety and security has been designed for owned and managed hotels and is illustrated opposite showing the identified groups of risks and describing the management activities carried out to mitigate the risks.

The red wheel illustrates the groups of risks which IHG's risk managers around the world work on with IHG general managers and their management teams in order to minimise the risks and keep the hotels safe.

Over the years we have developed risk management strategies to assess and treat individual types of risk. This has involved developing policies, standards and guidelines, raising awareness levels, training staff on the controls and systems which have been developed for their use and reviewing and reporting upon progress and continued risks. These management activities are represented by the purple wheel.

Security risks, particularly the threat of terrorism, have increased. In recent years, IHG has developed an increasingly sophisticated response that is intelligence-led and risk-based. The security risk environment is highly dynamic and needs to be managed both centrally and locally in hotels. In common with all risk strategies, there are three elements that must be developed and maintained: physical and technical systems, people capabilities and processes and procedures.

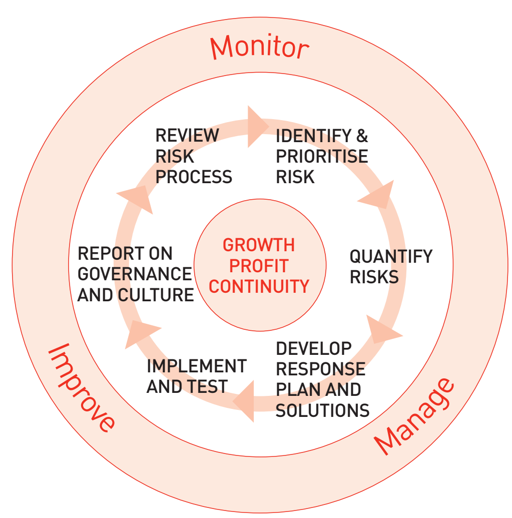
Hotel safety framework



Corporate risk management

The management activities shown above are being adapted and applied to manage corporate risks. This initiative is led by the Executive Committee, facilitated by the Risk Management function and integrated with quarterly strategic reviews.

IHG's Risk Management function has recently reviewed the way in which corporate risk and the major risks to IHG are managed and is seeking to develop a framework to improve risk management capability further, represented diagrammatically below:



Business review continued

Each year, risk identification workshops are run with the senior IHG management. The output is a 'Group Risk Register', divided into areas of accountability for each member of the Executive Committee.

The Executive Committee uses the findings to identify the major areas of risk for IHG and to assign accountability for cross-functional leadership between them. The Executive Committee prioritises and co-ordinates efforts to optimise the management of major risks to IHG.

Risk 'owners' first quantify the likelihood and potential impact and then identify existing controls as well as the ability, benefit and cost to improve them. This work is documented in Risk Action Plans that support the risks that are reported in the Group Risk Register.

Executives review the risks at quarterly strategic reviews as part of their business review with the Chief Executive and strategy team. Global Risk Management also submits periodic incident reports and two major reports each year to the Executive Committee and the Board on hotel safety and security as well as a further report on the major risks to IHG.

The Internal Audit function is separately responsible for providing assurance across the Group. They report their findings to the Audit Committee. This ensures separation of duties between the Risk Management and Internal Audit functions and hence supports good governance.

The Board is ultimately responsible for the Group's system of internal control and risk management and for reviewing its effectiveness. In order to discharge that responsibility, in 2008 the Board considered the most recent Major Risk Review which involved extensive consultation throughout the business.

The Group is subject to a variety of risks which could have a negative impact on its performance and financial condition. The following 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 Annual Report and the cautionary statements contained on page 103.

2009 risk factors

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 and/or 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 controls and laws are variable and subject to change. Any widespread infringement, misappropriation or weakening of the control environment could materially harm the value of the Group's brands and its ability to develop the 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. This is an inherent risk for the hotel industry and franchise business model. 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 and affordability of finance may all restrict the supply of suitable hotel development opportunities under franchise or management agreements. 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. 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.

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 inherent risks of global and regional adverse political, economic and financial market developments, including recession, inflation, availability of affordable credit and currency fluctuations that could lower revenues and reduce income. A recession reduces leisure and business travel to and from affected countries and adversely affects 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. The owners or potential owners of hotels managed or franchised by one group face similar risks which could adversely impact IHG's ability to retain and secure management or franchise agreements. More specifically, the Group is highly exposed to the US market and, accordingly, is particularly susceptible to adverse changes in the US economy.

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.

The Group requires organisational capability to manage changes in key personnel and senior management

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. Some of the markets in which the Group operates are experiencing economic growth and the Group must compete against other companies inside and outside the hospitality industry for suitably qualified or experienced employees. Failure to attract and retain these employees may threaten the success of the Group's operations in these markets. 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, 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 reservations system and is exposed to the risk of failures in the system and increased competition in reservations infrastructure

The value of the brands of the Group is partly derived from the ability to drive reservations through its proprietary HolidexPlus reservations system, a central repository of all hotel room inventories linked electronically to multiple sales channels including IHG owned Internet websites, third-party Internet intermediaries and travel agents, call centres and hotels.

Lack of resilience in operational availability could lead to prolonged service disruption and may result in significant business interruption and subsequent impact on revenues. Lack of investment in these systems may also result in reduced ability to compete. Additionally, failure to maintain an appropriate e-commerce strategy and select the right partners could erode the Group's market share.

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 with 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.

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 overcapacity (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.

Business review continued

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 amounts of its own capital, if the availability of suitable development sites becomes limited for IHG and its prospective hotel owners, this could adversely affect its results of operations.

The Group is exposed to risks related to corporate responsibility

The reputation of the Group and the value of its brands are influenced by a wide variety of factors, including the perception of key stakeholders and the communities in which the Group operates. The social and environmental impacts of business are under increasing scrutiny, and the Group is exposed to the risk of damage to its reputation if it fails to demonstrate sufficiently responsible practices in a number of areas such as safety and security, sustainability, responsible tourism, environmental management, human rights and support for the local community.

The Group is exposed to the risk of litigation

The Group could be at risk of litigation from many parties, including guests, customers, joint venture partners, suppliers, employees, regulatory authorities, franchisees and/or the owners of hotels managed by it. 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 also affect the reputation of the Group.

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 and 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. 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 such properties.

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. 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 the risks related to information security

The Group is increasingly dependent upon the availability, integrity and confidentiality of information and the ability to report appropriate and accurate business performance, including financial reporting, to investors and markets.

The reputation and performance of the Group may be adversely affected if it fails to maintain appropriate confidentiality of information and ensure relevant controls are in place to enable the release of information only through the appropriate channels in a timely and accurate manner.

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 UK pension plans who are entitled to defined benefits. In addition, if certain plans of the Group are wound up, the Group could become statutorily liable to make an immediate payment to the trustees to bring the funding of 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.

In particular, the trustees of IHG's UK defined benefit plan may demand increases to the contribution rates relating to the funding of this plan, which would oblige relevant employers of the Group to contribute extra amounts. The trustees must consult the plan's 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 2006.

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 2008.

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. Also Non-Executive Chairman of Makinson Cowell Limited, a capital markets advisory firm, a member of the Appeals Committee of the Panel on Takeovers and Mergers and a Director of Temple Bar Investment Trust PLC. Formerly Chairman of Safeway plc and a Non-Executive Director of Reed Elsevier PLC. Chairman of the Nomination Committee. Age 64.

Andrew Cosslett Chief Executive†

Appointed Chief Executive in February 2005, joining 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. Also has over 11 years' experience in brand marketing with Unilever. A member of the Executive Committee of the World Travel & Tourism Council and a member of the President's Committee of the CBI. Age 53.

Richard Solomons Finance Director†

Qualified as a chartered accountant in 1985, followed by seven years in investment banking, based in London and New York. 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. Assumed the role of interim President of the Americas region from July 2008, following the illness and subsequent untimely death of Stevan Porter, until the appointment of Jim Abrahamson in January 2009. Responsible for corporate and regional finance, Group financial control, strategy, investor relations, tax, treasury and internal audit. Age 47.

It is with great sadness that IHG records the death, on 7 August 2008, of Stevan Porter, President of the Americas region from 2003 to 2008, after a short illness. Under Stevan's inspired leadership the Americas region has been established as a dominant force. A 32-year veteran of the hospitality and related industries and an outstanding individual, Stevan will be deeply missed by everyone who knew him, both professionally and personally.

David Kappler Senior Independent Non-Executive Director#

Appointed a Director and Senior Independent Director in June 2004. 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. Also served as a Non-Executive Director of Camelot Group plc and of HMV Group plc. Chairman of the Audit Committee. Age 61.

Ralph Kugler Non-Executive Director#

Appointed a Director in April 2003. Was President, Unilever Home and Personal Care, and served on the boards of Unilever PLC and Unilever N.V. until May 2008. 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. Chairman of the Remuneration Committee. Age 52.

Jennifer Laing Non-Executive Director•

Appointed a Director in August 2005. Was Associate Dean, External Relations at London Business School, until 2007. A Fellow of the Marketing Society and of the Institute of Practitioners in Advertising, has over 30 years' experience in advertising including 16 years with Saatchi & Saatchi, to whom she sold her own agency. Also serves as a Non-Executive Director of Hudson Highland Group Inc., a US human resources company. Age 61.

Jonathan Linen Non-Executive Director‡

Appointed a Director in December 2005. Was formerly Vice Chairman of the American Express Company, having held a range of senior positions throughout his career of over 35 years with American Express. A Non-Executive Director of Yum! Brands, Inc. and of Modern Bank, N.A., a US private banking company. Also serves on a number of US Councils and advisory boards. US citizen. Age 65.

Ying Yeh Non-Executive Director‡

Appointed a Director in December 2007. Is Chairman and President, North Asia Region, President, Business Development, Asia Pacific Region and Vice President, Eastman Kodak Company. Also a Non-Executive Director of AB Volvo. Prior to joining Kodak in 1997 was, for 15 years, a diplomat with the US Foreign Service in Hong Kong and Beijing. Chinese citizen. Age 60.

Other members of the Executive Committee

Jim Abrahamson President, The Americas†§

Has over 30 years' experience in hotel operations, branding, development and franchise relations. Joined the Group in January 2009 from Global Hyatt Corporation, where he served as Head of Development, The Americas, with responsibility for development of all the Hyatt brands in the region, and playing a key part in Global Hyatt's entry into new markets and segments. Previously Senior Vice President, Hilton Hotels Corporation for 12 years. Responsible for the business development and performance of all the hotel brands and properties in the Americas region. US citizen. Age 53.

Tom Conophy Executive Vice President and Chief Information Officer†§

Has over 28 years' experience in the IT industry, including management and development of new technology solutions within the travel and hospitality business. 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 48.

Peter Gowers President, Asia Pacific†§

Joined the Group in 1999. Following appointments as Executive Vice President, Global Brand Services in 2003, and as Chief Marketing Officer in 2005, appointed President, Asia Pacific in November 2007. Now has responsibility for the business development and performance of all the hotel brands and properties in the Asia Pacific region. Has previous international experience in management consultancy, based in London and Singapore. Age 36.

Kirk Kinsell President, EMEA†§

Has over 26 years' experience in the hospitality industry, including senior franchise positions with Holiday Inn Corporation and ITT Sheraton, prior to joining the Group in 2002 as Senior Vice President, Chief Development Officer for the Americas region. Became President, EMEA in September 2007. Responsible for the business development and performance of all the hotel brands and properties in the EMEA region. US citizen. Age 54.

Tracy Robbins Executive Vice President, Global Human Resources†§

Has over 23 years' experience in line and HR roles in service industries. 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 45.

Tom Seddon Executive Vice President and Chief Marketing Officer†§

Has over 16 years' experience in sales and marketing in the hospitality industry, including with IHG's predecessor parent companies from 1994 to 2004. Rejoined the Group in November 2007, from restaurant business SUBWAY® where he was responsible for worldwide sales and marketing activities. Has responsibility for worldwide brand management, reservations, e-commerce, global sales, relationship and distribution marketing, loyalty programmes and corporate responsibility. British and US citizen. Age 40.

George Turner Executive Vice President, General Counsel and Company Secretary†§

Solicitor, qualified to private practice in 1995 and has 12 years' corporate and commercial law experience with Imperial Chemical Industries PLC, where he was most recently Deputy Company Secretary. Joined the Group in September 2008, and became Executive Vice President, General Counsel and Company Secretary on 1 January 2009. Responsible for corporate governance, risk management, insurance, data privacy, company secretariat and the global and regional legal teams. Age 38.

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 in support of IHG's core purpose to create Great Hotels Guests Love.

* 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 2008.

Certain information required for disclosure in this report is provided in other appropriate sections of the full Annual Report and Financial Statements 2008. These include the Business Review, the Corporate Governance and Remuneration Reports, and the Group financial statements and these are, accordingly, incorporated into this Directors' Report by reference.

Activities of the Group

The principal activities of the Group are in hotels and resorts, with franchising, management, ownership and leasing interests in almost 4,200 establishments, with nearly 620,000 guest rooms in nearly 100 countries and territories around the world.

Business review

This Directors' Report should be read in conjunction with the Chairman's statement and the Chief Executive's review on pages 2 to 4, and the Business Review on pages 6 to 28. Taken together, these provide a fair review of the Group's strategy and business and a description of the principal risks and uncertainties it faces. The development and performance of the business during and at the end of the year are described, together with main trends, factors and likely developments, key performance indicators, environmental and employee matters, and social and community issues.

Significant growth during the year

During 2008, the Group increased its development pipeline to 1,775 hotels (245,085 rooms), up by 6% and 8.5% respectively compared with 2007.

Results and dividends

The profit on ordinary activities before taxation was $316m. An interim dividend of 6.4p per share (12.2 cents per ADR) was paid on 3 October 2008. The Directors are recommending a final dividend of 20.2p per share (29.2 cents per ADR) to be paid on 5 June 2009 to shareholders on the Register at close of business on 27 March 2009. Total dividends relating to the year are expected to amount to $115m.

Share repurchases

The Company continued its £150m share repurchase programme throughout the year, during which 9,219,325 ordinary shares were purchased and cancelled at a cost of £69,995,626 (excluding transaction costs). These purchases were at an average price of 759p per share. As at the date of this report, £30m of the programme has yet to be completed. The programme was deferred in November 2008 in order to preserve cash and maintain the strength of IHG's balance sheet.

Shares purchased and cancelled represented approximately 3.13% 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 2007 and at the Annual General Meeting held on 30 May 2008.

The share buyback authority remains in force until the Annual General Meeting in 2009, 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 2008, 2,424,605 such options were outstanding.

During 2008, 1,612,020 options granted in April 2005 under the IHG Executive Share Option Plan, vested in full. Of these, 77,310 had been exercised by 31 December 2008.

During 2008, conditional rights over 5,060,509 shares were awarded to employees under the Long Term Incentive Plan and 2,751,895 shares were released under the plan.

A number of employees participated in the Annual Bonus Plan during the year. Conditional rights over 661,657 shares were awarded to participants. 471,794 shares were released under the plan during the year. A number of participants are eligible to receive a bonus award in shares on 23 February 2009.

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. Current policy is to settle the majority of awards or grants under the Company's share plans with shares purchased in the market. A number of options granted before 2005 are yet to be exercised and will be settled with the issue of new shares.

Share capital

During the year, 148,210 new shares were issued under employee share plans. Taking into account the cancellation of 9,219,325 shares under the share repurchase programme, the Company's issued share capital at 31 December 2008 consisted of 285,552,193 ordinary shares of 13 29/47p each. There are no special control rights or restrictions on transfer attaching to these ordinary shares.

The Company has not utilised the authority given by shareholders at any of its Annual General Meetings, to allot shares for cash without offering such shares to existing shareholders.

Substantial shareholdings

As at 16 February 2009, the Company had been notified by shareholders of the following substantial interests, representing 3% or more of its ordinary share capital:

Ellerman Corporation Limited 10%

Morgan Stanley Investment Management Limited 5.60%

Cedar Rock Capital Limited 5.07%

Legal & General Group Plc 4.09%

Lloyds TSB Group plc* 3.84%

Directors

Details of Directors who served on the Board during the year are shown on page 36. Details of the beneficial share interests of Directors who were on the Board at the year end are shown below. No changes to these interests occurred between the year end and the date of this Report.

	31 December 2008 InterContinental Hotels Group PLC ordinary shares[1]
Executive Directors	
Andrew Cosslett	240,229
Richard Solomons	242,385
Non-Executive Directors	
David Kappler	1,400
Ralph Kugler	1,169
Jennifer Laing	3,373
Robert C Larson	10,269[2]
Jonathan Linen	7,343[2]
David Webster	32,839
Ying Yeh	–

1 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. These shareholdings do not include Executive Directors' entitlements to share awards under the Company's share plans, which are set out separately in the Remuneration Report on pages 45 to 47.

2 Held in the form of American Depositary Receipts.

* Now called Lloyds Banking Group plc.

Subject to the Company's Memorandum and Articles of Association, any relevant legislation and to any directions given by special resolution, the business is managed by the Board which may exercise all the powers of the Company. These include the power to allot and to purchase shares.

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 the Companies Act 2006.

The Group has provided to all of its Directors, 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 2006 and are all currently in force.

There were no indemnity provisions relating to the UK pension plan, for the benefit of the Directors of the Company, in place during the period.

Employees

IHG directly employed an average of 8,334 people worldwide during 2008, whose costs are borne by the Group. When the whole IHG estate is taken into account (including staff working in the managed and franchised hotels) approximately 330,000 people are employed globally across IHG's brands.

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 20 to 22 of the Business Review.

Charitable donations

During the year, the Group donated $1,161,500 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 2008 are estimated at $1,394,400.

Political donations

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

Financial risk management

The Group's financial risk management objectives and policies, including its use of financial instruments, are set out on page 19 of the Business Review and in notes 21 and 22 to the Group financial statements on pages 79 to 82.

A number of IHG's banking arrangements are terminable upon a change of control of the Company.

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 co-ordinated between Group undertakings.

Directors' report continued

Going concern

The wider economic climate currently creates trading uncertainty for the hotel industry and IHG. The key business risks for IHG are outlined on pages 26 to 28 of the Business Review but, in particular over the relatively short term, the main risks are falling consumer demand, restrictions on the availability of debt for owners, and a fall in the pace of new room openings. As highlighted in note 20 to the Group financial statements, the Group refinanced its debt in May 2008 and meets its day-to-day working capital requirements through this facility. At the end of 2008, the Group was trading significantly within its banking covenants and debt facilities. $500m of the facility expires in November 2010 and, as at the date of this Report, the Group is not aware of any matters which may preclude this element being refinanced on acceptable terms in an appropriate timeframe.

The Group's fee-based model and wide geographic spread means that it is well placed to manage through the current downturn, and our forecasts and sensitivity projections, based on a range of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facility.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and, accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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, 29 May 2009 is contained in a circular sent to shareholders with this Report.

By order of the Board

George Turner
Company Secretary
16 February 2009

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 2008.

As InterContinental Hotels Group PLC's shares are also 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). As required by the 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 under corporate governance/NYSE differences.

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 Operating 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: the Head of Risk Management; the Head of Internal Audit; and, in certain instances, from management, 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 reviews:

- regular reports from management, Internal Audit and the external auditor on the effectiveness of systems for internal control, financial reporting and risk management;
- the timeliness and effectiveness of corrective action taken by management; and
- material financial and non-financial risks.

The Board has conducted a review of the effectiveness of the system of internal control during the year ended 31 December 2008. This covered all material controls, including financial, operational and compliance controls, and risk management systems, and took into account any material developments 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. Whilst areas for improvement in internal control have been identified and actions initiated as a result of the above process, no significant shortcomings in internal control have been identified from the annual assessment.

To comply with the Group's US obligations, arising from the Sarbanes-Oxley Act 2002, a project has been completed to identify, evaluate and test key financial controls across all our business units. This enabled appropriate representations regarding the effectiveness of internal financial controls to be made in the Company's Annual Report on Form 20-F, filed with the SEC in March 2008, in compliance with these US obligations.

With regard to insurance against risk, it is not practicable to insure against every risk to the fullest extent. While the insurance market has eased in some areas, certain risks, eg natural catastrophe, remain difficult to insure both as to breadth and cost of coverage. 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, two Executive and five Non-Executive Directors meets the requirement of the Combined Code for at least half the Board, excluding the Chairman, to be independent Non-Executive Directors. In the Board's view, all of the current Non-Executive Directors are independent.

The Board is responsible to the shareholders for the strategic direction, development, performance 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.

Corporate governance continued

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.

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[2]	Finance Director	10.2.03
Stevan Porter[3]	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[4]	Non-Executive Director	15.4.03
Jonathan Linen	Non-Executive Director	1.12.05
Sir David Prosser[5]	Non-Executive Director	15.4.03
Ying Yeh	Non-Executive Director	1.12.07

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 Richard Solomons also served as interim President of the Americas region from July to December 2008, following the illness and subsequent death of Stevan Porter.

3 Stevan Porter relinquished his responsibilities in July 2008, due to illness. He passed away on 7 August 2008.

4 Robert C Larson retired as a Director of the Company on 31 December 2008.

5 Sir David Prosser retired as a Director of the Company on 31 May 2008.

Current Directors' biographical details are set out on page 30 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.

Eight regular Board meetings are scheduled each year and further meetings are held as needed. During 2008, nine Board meetings were held. These were attended by all Directors with the exception that Robert C Larson, Sir David Prosser and Ying Yeh could not attend one meeting each. Despite being unable to attend meetings, these Directors were provided with all the papers and information relevant to those meetings and were able to discuss matters arising with the Chairman and the Chief Executive.

It is unavoidable, particularly given the other corporate and international responsibilities of the very experienced people concerned, that, from time to time, 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.

The Company's Articles of Association were amended with effect from 1 October 2008 to allow the Directors to authorise conflicts and potential conflicts, where appropriate, as now permitted under the Companies Act 2006. Each of the Directors was asked to identify any conflicts or potential conflicts by returning a questionnaire to the Company Secretary. The Board considered all the responses to this questionnaire at a meeting of the full Board and has approved those potential conflicts it considered appropriate. The Board will review formally the conflict authorisations granted each year, but continues to have conflicts of interest as a standing agenda item at each meeting.

Performance evaluations of the Board and the Directors were undertaken for 2008. An independent third-party facilitator assists in the performance evaluation in alternate years. The 2008 evaluation was conducted internally.

The 2008 Board evaluation, including that of the Chairman and the Executive Directors, involved completion of questionnaires and the Chairman having discussions with each Director individually.

Feedback was provided to the Board through a formal report and the findings were discussed. The Board concluded that it was operating in an effective manner and identified certain areas where more emphasis might be given.

With regard to the performance of individual Directors, as part of the evaluation process, the Chairman held meetings with each Director and it was concluded that they continue to make an effective contribution to the work of the Board. All Directors are well prepared and informed concerning items to be considered by the Board, have a good understanding of the Group's business and retain a strong commitment to their roles.

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. These reviews concluded that each Committee was operating in an effective manner.

Chairman

David Webster was Non-Executive Chairman throughout the year. He is also Non-Executive Chairman of Makinson Cowell Limited. He is a member of the Appeals Committee of the Panel on Takeovers and Mergers, and in 2008 was appointed a Director of Temple Bar Investment Trust PLC.

The Chairman has responsibility for ensuring the efficient operation of the Board and its Committees, for overseeing corporate governance matters and ensuring they are addressed, for representing the Group externally and communicating particularly with shareholders. Working closely with the Chief Executive and the Company Secretary, he also ensures that Directors receive a full, formal and tailored induction to the Group and its business and that all Directors are fully informed of relevant matters. The Chairman also meets with the Non-Executive Directors, without Executive Directors present.

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. He is a member of the Executive Committee of the World Travel & Tourism Council and a member of the President's Committee of the CBI. Neither of these positions is remunerated.

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 five such Directors, in addition to the Non-Executive Chairman, each of whom has significant external commercial experience. The Non-Executive Directors, including the Chairman, meet during the year to consider the Group's business and management.

Non-Executive Directors have the opportunity of continuing professional development during the year and of gaining further insight into the Group's business. During 2008, visits to operating premises (including hotels) 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. His responsibilities include ensuring good information flows to the Board and its Committees and between senior management and the Non-Executive Directors. He facilitates the induction of Directors, the regular updating and refreshing of their skills and knowledge and he assists them in fulfilling their duties and responsibilities. Through the Chairman, he is responsible for advising the Board on corporate governance and generally for keeping the Board up to date on all legal, regulatory and other developments.

The Company Secretary acts as secretary to each of the main Board Committees. George Turner became Company Secretary on 1 January 2009.

Committees

Each Committee of the Board has written terms of reference which are approved by the Board and which are subject to review every year.

Audit Committee

The Audit Committee is chaired by David Kappler who has significant recent and relevant financial experience and is the Committee's financial expert. During 2008, the other Committee members were Sir David Prosser (until his retirement on 31 May 2008), Ralph Kugler and Jennifer Laing. The Committee is scheduled to meet at least four times a year. The Committee met five times in 2008. These meetings were attended by all Committee members. The Audit Committee's role is described on page 39.

Remuneration Committee

The Remuneration Committee, chaired by Sir David Prosser (until his retirement on 31 May 2008), and thereafter by Ralph Kugler, also comprises the following Non-Executive Directors: David Kappler, Robert C Larson (until his retirement on 31 December 2008), Jonathan Linen and Ying Yeh. It meets at least three times a year. Its role is described on page 40. The Committee met four times during 2008. Robert C Larson and Ying Yeh were unable to attend one meeting each.

Nomination Committee

The Nomination Committee 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 proposed as good practice and referred to in the Combined Code. The Committee nominates, for approval by the Board, candidates for appointment to the Board. 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 has responsibility for succession planning and assists in identifying and developing the role of the Senior Independent Director. The Committee met five times during 2008. Robert C Larson and Ying Yeh were unable to attend one meeting each.

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 business. It is authorised to approve capital and revenue investment within levels agreed by the Board. It reviews and recommends to the Board the most significant investment proposals.

Corporate Responsibility Committee

In December 2008 it was proposed to establish an additional Committee of the Board, to advise on matters relating to the important area of Corporate Responsibility. This new Committee was established in February 2009.

Corporate governance continued

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, 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 represents the Group's position in all material respects.

General Purposes Committee

The General Purposes Committee comprises any one Executive Committee member together with a senior officer from an agreed and restricted list of senior executives. It is always chaired by an Executive Committee member. 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.

Appointment, removal and re-election of Directors

The rules governing the appointment and removal of Directors are set out in the Company's Articles of Association. New Directors are subject to election by shareholders at the next Annual General Meeting following appointment, and the office of a Director shall be vacated in the circumstances defined in Article 90 of the Articles of Association, eg prohibition by law, bankruptcy, absence without leave.

The Company's Articles of Association provide that those Directors who have not been subject to election by shareholders within the last three years, must retire and stand for re-election at the next Annual General Meeting. In 2009, two Directors fall into this category. Therefore, Jennifer Laing and Jonathan Linen will retire by rotation and offer themselves for re-election at the Annual General Meeting on 29 May 2009. Additionally, solely for the purposes of good governance, Richard Solomons will also retire at the Annual General Meeting and offer himself for re-election.

The Notice of Annual General Meeting, sent to shareholders with this Report, provides further information about the Directors standing for re-election. Information on Executive Directors' service contracts is set out on page 43. The Non-Executive Chairman and the five 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.

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 may be found at www.ihg.com/investors under financial library/presentations.

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 of the Board were reviewed during the year. It was confirmed that all terms of reference continue to reflect best practice. A number of minor amendments were made to update the terms of reference of the Remuneration Committee. Principal Committees' terms of reference are available on the Company's website www.ihg.com/investors under corporate governance/committees or from the Company Secretary's office on request.

The Memorandum and Articles of Association of the Company are available on the Company's website www.ihg.com/investors under corporate governance. The terms and conditions of appointment of Non-Executive Directors are available on request.

George Turner
Company Secretary
16 February 2009

Audit Committee report

The Audit Committee supports the Board in meeting 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, are set out on page 37.

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
- oversee the Group's Code of Ethics and Business Conduct and 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 Finance Director attends its meetings, as do the external auditor and 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 auditors 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;
- oversight of the financial control self-assessment process;
- the effectiveness of the internal audit function and its compliance with professional standards;
- any major changes in the Group's internal controls and control environment;
- 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's risk review process;
- developments in corporate governance and accounting standards 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;
- reviewing the Group's approach to managing tax risk;
- the impact on IHG of the increased volatility and risk aversion in the financial markets;
- consideration of the Group's treasury objectives and policies;
- a review of changes to the Group's policy on delegation of authority;
- a review of the funding position and governance of the Group's main pension plan;
- periodic reports on any significant incidents of fraud or any allegations made via the Group's whistleblowing procedures and the effectiveness of these procedures;
- any material litigation involving the Group; 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
16 February 2009

Remuneration report

This report has been prepared by the Remuneration Committee and has been approved by the Board. It complies with the Companies Acts and related regulations. 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 until 31 May 2008
Ralph Kugler – Chairman from 1 June 2008
David Kappler
Robert C Larson – retired on 31 December 2008
Jonathan Linen
Ying Yeh

Sir David Prosser retired from the Board and as Chairman of the Committee on 31 May 2008. He was succeeded as Chairman by Ralph Kugler, who previously served on the Committee from 2003 until May 2005.

Robert C Larson retired from the Board and the Committee on 31 December 2008 and has not been replaced.

No member of the Committee has any personal financial interest in the matters to be decided by the Committee, other than as a shareholder. The Committee met four times in the year. Robert C Larson and Ying Yeh were unable to attend one meeting each.

The Committee's remit is set out in its terms of reference, which were last reviewed by the Board in November 2008. The Committee agrees, on behalf of the Board, all aspects of the remuneration of the Executive Directors and the Executive Committee members, and agrees the strategy, direction and policy for the remuneration of other senior executives who have a significant influence over the Company's ability to meet its strategic objectives.

Throughout the year, the Committee was assisted in its work by PricewaterhouseCoopers LLP (PwC), as independent consultants appointed by the Committee. PwC also support management in developing and implementing remuneration proposals. PwC also provided additional services to IHG, including advice on employer and employee tax compliance processes for expatriate employees and on tax withholding obligations in relation to employee share plans. The following advisers were retained on behalf of the Company and provide information to the Committee on relevant matters:

- Towers Perrin provided advice on reward structures and levels applicable in the markets relevant to the Group. Towers Perrin did not provide any other services to the Group during 2008; and
- Linklaters LLP provided other legal services to the Group throughout 2008.

The terms of engagement for PwC and Towers Perrin are available from the Company Secretary's office on request.

Committee meetings are regularly attended by the following individuals who provide input to the Committee on remuneration proposals:

David Webster – Chairman of the Board
Andrew Cosslett – Chief Executive
Tracy Robbins – Executive Vice President, Global Human Resources
Lori Gaytan – Senior Vice President, Global Human Resources

None of the above is in attendance when his/her own remuneration is being discussed.

2 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 periodic review.

2.1 Total level of remuneration

IHG's overall remuneration is intended to:

- attract and retain high-quality executives in an environment where compensation levels are based on global market practice;
- drive aligned focus and reward the achievement of key strategic objectives;
- support equitable treatment between members of the same executive team; and
- facilitate global assignments and relocation.

The Company's strategy is one of achieving competitive outperformance. This is delivered through an 'asset-light' operating model, and a focus on core markets. The remuneration strategy seeks to support this by providing upper quartile rewards for achievement of challenging targets, set at levels to deliver competitive advantage. The Committee believes that it is important to reward management for targets achieved, provided those targets are stretching and aligned with shareholders' interests.

2.2 Key developments

2008

2008 was a good year for IHG, despite the tough market conditions. Growth in operating profit from continuing operations before exceptional items was 13% and reflected the Company's strong competitive performance, combining system growth, an increase in relative revenue per available room (RevPAR) over the year despite worsening economic conditions in the second half, and good control of costs.

The Company's earnings before interest and tax (EBIT) performance resulted in a bonus outcome of 94.3% of the target amount. Rooms growth of 34,757 net additions resulted in an outcome of 99.1% of target on this measure. As a result of this, IHG exceeded the three-year target of adding 50,000-60,000 net rooms by the end of 2008.

2009

The strategy of the Company remains unchanged. 2009 is expected to be a highly challenging year in light of the global economic climate. Consequently, there will be a stronger focus on cost control in IHG, and on preserving profitability in the face of industry-wide projected declines in RevPAR.

The Committee believes that the current remuneration framework continues to provide an appropriate link between reward and competitive performance. However, the Committee has made some adjustments in 2009, to ensure that the strategy of competitive outperformance is sustained in the much more challenging market conditions.

Base salaries and fees for Executive and Non-Executive Directors have been frozen at 2008 levels. This decision has been taken in view of the challenging cost environment within which the entire Company will be operating throughout the coming year.

In the tough trading conditions anticipated in 2009, achieving the Company's earnings targets will be a key priority. Consequently, the weighting placed on EBIT has been increased in the 2009 Annual Bonus Plan (ABP). In addition, all senior executives will have specific cost-savings targets in their key performance objectives.

Performance targets in the Long Term Incentive Plan (LTIP) for 2009/2011 have been set at stretching levels in the context of the business plan, market expectations, and competitive performance at the time the awards are made. The Committee believes that the current measures of Total Shareholder Return (TSR) and Earnings Per Share (EPS) will provide a transparent way for shareholders to assess IHG's competitive performance in the turbulent environment being experienced.

In light of the significant market slowdown expected during this three-year cycle, the EPS growth scale for the 2009/2011 LTIP has been reduced. The lower, threshold performance requirement is ahead of current market forecasts of IHG's EPS growth over the next LTIP cycle, and stretching in the context of market expectations of industry-wide RevPAR decline. Despite the stretching nature of this revised range, the Committee has decided that, due to the reduced EPS scale, the maximum award level for the EPS portion of the LTIP will be reduced by half.

Vesting will occur on a straight-line basis within the threshold range of 0-10% per annum growth, with no award at the lower threshold (compared to 20% of salary paid for achievement of threshold previously). Thus, meaningful levels of vesting for this element can only be achieved through EPS performance that is significantly higher than market forecasts. No change has been made to the TSR element of the LTIP scheme.

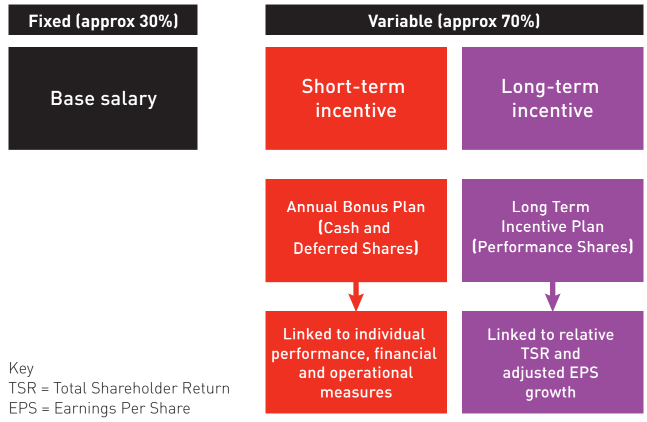
The Committee believes this 2009 remuneration structure will focus management activity on making further competitive gains, however challenging the market conditions.

2.3 Remuneration structure

IHG's remuneration scheme for senior executives places a strong emphasis on performance-related reward. The individual elements are designed to provide the appropriate balance between fixed remuneration and variable 'risk' reward, linked to both the performance of the Group and the achievements of the individual. Group performance-related measures are chosen carefully to ensure a strong link between reward and underlying financial performance, and emphasis is placed on achievement of key strategic priorities.

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 and benefits).

A summary of the fixed and variable elements of executive remuneration is shown below:



The main components of remuneration are as follows:

Base salary and benefits

The salary for each Executive Director is reviewed annually and is based on both individual performance and on the relevant competitive market data. 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 local market practice.

In assessing levels of pay and benefits, IHG analyses those 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.

Executive Directors' salaries for 2009 remain unchanged as shown below:

	2009 Salary	2008 Salary
Andrew Cosslett	£802,000	£802,000
Richard Solomons	£510,000	£510,000

Annual Bonus Plan

Awards under the ABP require the achievement of challenging performance goals before target bonus is payable.

The maximum bonus a participant can receive in any one year is 200% of salary. Achievement of target performance results in a bonus of 115% of salary. Half of any bonus earned is deferred in the form of shares for three years. No matching shares are awarded by the Company. These arrangements were described in last year's Annual Report and Financial Statements and were introduced in 2008. The first cash and share awards will be made under these arrangements in 2009, in respect of the 2008 financial year.

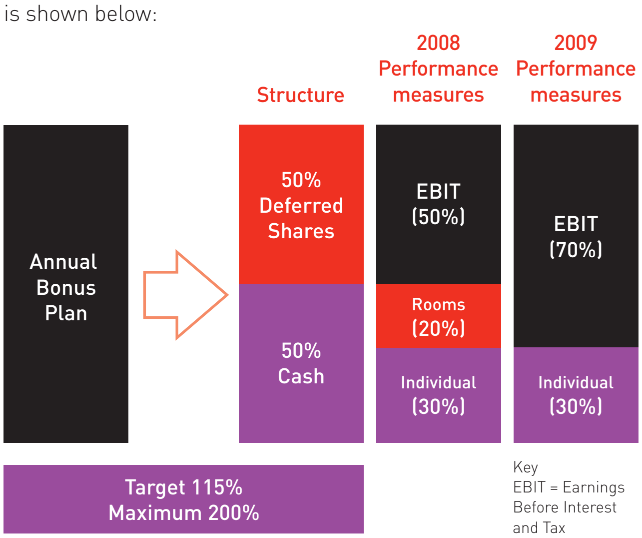
Remuneration report continued

For 2008, awards under the ABP were linked to individual performance (30% of total award), EBIT (50% of total award) and net annual rooms additions (20% of total award). Individual performance was measured by the achievement of specific key performance objectives that are linked directly to the Group's strategic priorities, and an assessment of performance against leadership competencies and behaviours.

Under the financial measure (EBIT), threshold payout is 90% of target performance, with maximum payout at 110% or more of target. If performance under the financial measure in any year is below threshold, payout on all other measures is reduced by half.

For awards in respect of the 2009 financial year, the ABP will operate as described above, except for an increase in the weighting of the EBIT measure to 70% of the total bonus opportunity. In addition, if EBIT performance is lower than 85% of target, there will be no annual bonus payout on any measures for the 2009 financial year.

A summary of the operation of the ABP for 2008 and 2009 is shown below:



Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) allows Executive Directors and eligible employees to receive share awards, subject to the achievement of performance conditions set by the Committee, normally measured over a three-year period. Awards are made annually and, other than in exceptional circumstances, will not exceed three times annual salary for Executive Directors.

The performance conditions for the LTIP are:

- IHG's TSR relative to the Dow Jones World Hotels index (index); and
- growth in adjusted EPS over the period.

As indicated to major shareholders last year, the Remuneration Committee will be carrying out a more detailed review during 2009 of IHG's executive incentive plans, with a particular focus on the performance measures used in the LTIP. If it is concluded that changes are desirable, they will be introduced in 2010 for the 2010/2012 LTIP cycle.

For the 2008/2010 LTIP cycle, performance will be measured by reference to two components:

TSR (Maximum award of 135% of salary)

- 20% of the TSR award will be released if TSR compound annual growth is equal to the index (threshold performance);
- 100% of the TSR award will be released if TSR compound annual growth exceeds the index by 8% or more.

EPS (Maximum award of 135% of salary)

- 20% of the EPS award will be released if compound annual growth in adjusted EPS is 6% (threshold performance);
- 100% of the EPS award will be released if compound annual growth in adjusted EPS is 16% or more (maximum performance).

For the 2009/2011 LTIP cycle, performance will be measured by reference to two components:

TSR (Maximum award of 135% of salary)

- 20% of the TSR award will be released if TSR compound annual growth is equal to the index (threshold performance);
- 100% of the TSR award will be released if TSR compound annual growth exceeds the index by 8% or more.

EPS (Maximum award of 70% of salary)

- 0% of the EPS award will be released if compound annual growth in adjusted EPS is 0% (threshold performance);
- 100% of the EPS award will be released if compound annual growth in adjusted EPS is 10% or more (maximum performance).

For all award cycles, vesting between all stated points will be on a straight-line basis and will continue to be measured in constant currency. Awards under the LTIP lapse if performance conditions are not met – there is no re-testing. In setting the targets, the Committee has taken into account a range of factors, including IHG's strategic plans, analysts' expectations for IHG's performance and for the industry as a whole, the historical performance of the industry and FTSE 100 market practice.

Executive share options

Since 2006, executive share options have not formed part of the Group's remuneration strategy. Details of prior share option grants are given on page 47.

Share capital

During 2008, no awards or grants over shares were made that would be dilutive of the Company's ordinary share capital. Current policy is to settle the majority of awards or grants under any of the Company's share plans with shares purchased in the market. A number of options granted before 2005 are yet to be exercised and will be settled with the issue of new shares.

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.

2.4 Policy on external appointments

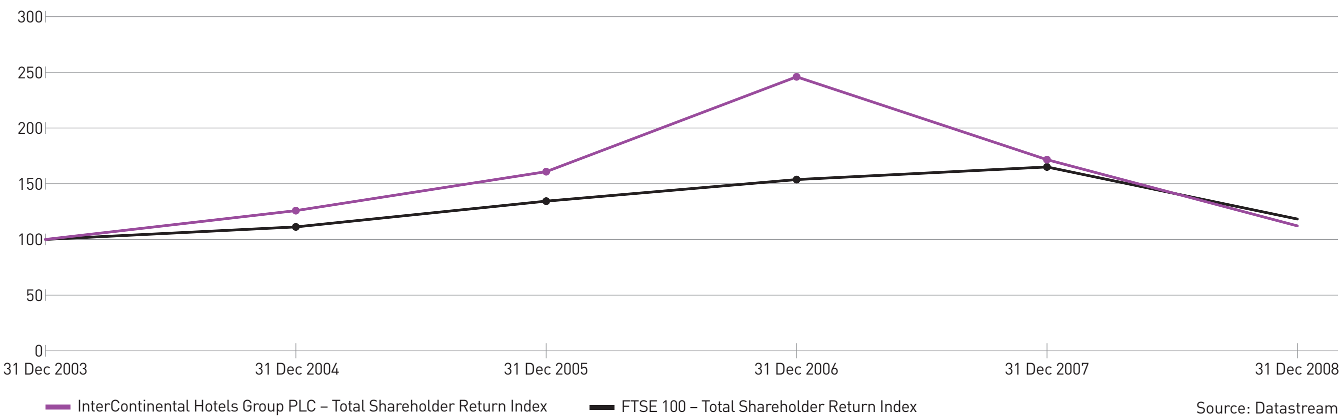
The Company recognises that its Executive Directors may be invited to become Non-Executive Directors of other companies and that such duties can broaden experience and knowledge and benefit the business. Executive Directors are, therefore, allowed to accept one non-executive appointment (in addition to any 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. Executive Directors are generally authorised to retain the fees received.

Andrew Cosslett was Non-Executive Chairman of Duchy Originals Limited until 30 September 2008, for which he received no remuneration.

2.5 Performance graph

Throughout 2008, the Company was a member of the FTSE 100 index. Accordingly, the Committee has determined that this is the most appropriate market index against which to test the Company's performance. The graph below shows the TSR performance of IHG from 31 December 2003 to 31 December 2008, assuming dividends are reinvested, compared with the TSR performance achieved by the FTSE 100 index.

Total Shareholder Return: InterContinental Hotels Group PLC v FTSE 100



Source: Datastream

2.6 Contracts of service

a) Policy

The Committee's policy is for Executive Directors to have rolling contracts with a notice period of 12 months. Andrew Cosslett 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 notice period reducing to 12 months may be used, in accordance with the Combined Code.

No provisions for compensation for termination following change of control, nor 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.

Non-Executive Directors have letters of appointment. David Webster's appointment as Non-Executive Chairman, effective from 1 January 2004, is subject to six months' notice. The dates of appointment of the other Non-Executive Directors are set out on page 36.

All Directors' appointments and subsequent reappointments are subject to election and re-election by shareholders.

b) Directors' contracts

Director	Contract effective date[1]	Unexpired term/ notice period
Andrew Cosslett	03.02.05	12 months
Stevan Porter	15.04.03	n/a[2]
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 incorporating the same terms as their original service agreements.

2 Stevan Porter passed away on 7 August 2008.

Biographies of each of the Directors and their main responsibilities can be found on page 30. In January 2009 a new President of the Americas region, James Abrahamson, was appointed. Mr Abrahamson is also a member of the Executive Committee but not the Board.

2.7 Policy regarding pensions

Andrew Cosslett, Richard Solomons and other senior UK-based employees participate on the same basis in the executive section of the registered 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. As an alternative to these unfunded arrangements, a cash allowance may be taken.

Senior US-based executives participate in US retirement benefits plans, as did Stevan Porter until his death on 7 August 2008. Executives outside the UK and US participate in the InterContinental Hotels Group International Savings and Retirement Plan or other local plans.

Remuneration report continued

3 Policy on remuneration of Non-Executive Directors

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

Non-Executive Directors' fee levels were last established by the Board on 1 January 2007 and were scheduled to be reviewed in 2008. However, as indicated on page 41, IHG has decided to maintain the 2007 and 2008 fee levels for 2009. Therefore, the following annual fee rates remain unchanged:

Role	Fee
Chairman	£390,000
Senior Independent Director & Chairman of Audit Committee	£95,000
Chairman of Remuneration Committee	£80,000
Other Non-Executive Directors	£60,000

From this point forward, the information provided in this report has been audited by Ernst & Young LLP.

4 Directors' emoluments

				Total emoluments excluding pensions	
	Base salaries and fees £000	Performance payments[1] £000	Benefits[2] £000	**1 Jan 2008 to 31 Dec 2008 £000**	1 Jan 2007 to 31 Dec 2007 £000
Executive Directors					
Andrew Cosslett	787	495	25	**1,307**	1,276
Stevan Porter[3]	503	593	5	**1,101**	677
Richard Solomons[4]	561	401	18	**980**	771
Non-Executive Directors					
David Webster	390	–	2	**392**	392
David Kappler	95	–	–	**95**	95
Ralph Kugler[5]	72	–	–	**72**	60
Jennifer Laing	60	–	–	**60**	60
Robert C Larson	60	–	–	**60**	60
Jonathan Linen	60	–	–	**60**	60
Sir David Prosser[6]	33	–	–	**33**	80
Ying Yeh[7]	60	–	–	**60**	5
Former Directors[8]	–	–	1	**1**	1,124
Total	**2,681**	**1,489**	**51**	**4,221**	**4,660**

Stevan Porter, Executive Director and President of the Americas region, relinquished his responsibilities in July 2008, due to illness, and he sadly passed away on 7 August 2008. Richard Solomons, Finance Director, took on the additional role of interim President, The Americas, from July 2008 until the end of the calendar year, prior to the appointment of a permanent successor to this role in January 2009. The consequences of these events for the remuneration of both Stevan Porter and Richard Solomons are set out in the footnotes below.

1 Performance payments comprise cash payments in respect of participation in the ABP but exclude bonus payments in deferred shares, details of which are set out in the ABP table on page 45.

2 Benefits incorporate all tax assessable benefits arising from the individual's employment. For Messrs Cosslett and Solomons, this relates in the main to the provision of a fully expensed company car and private healthcare cover. For Stevan Porter, benefits related in the main to private healthcare cover and financial counselling.

3 Amounts reported for Stevan Porter reflect his contractual service during the year and include amounts which were paid to his estate related to accrued vacation, a pension allowance, health cover and a pro-rated payment in respect of participation in the ABP through his contractual service period reflective of financial and individual performance from 1 January to 30 June 2008.

4 In respect of his additional duties as interim President of the Americas region, Richard Solomons received a salary supplement of £10,000 per month and participated in a special cash bonus plan. The cash bonus plan was linked to ensuring the successful ongoing performance of the Americas region for 2008. The target bonus award was 115% of the six-month salary supplement (£60,000), in line with our normal annual bonus plan structure. The maximum bonus was 200% of the salary supplement. This element of his bonus paid at 109% of target and is included in performance payments.

5 Ralph Kugler's fee was increased, pro rata, from 1 June 2008 when he became Chairman of the Remuneration Committee.

6 Sir David Prosser retired as a Director and Chairman of the Remuneration Committee on 31 May 2008.

7 Ying Yeh was appointed as a Director on 1 December 2007.

8 Richard Hartman retired as a Director on 25 September 2007. His emoluments include salary and benefits for 2007 and ABP payments made in 2008, in respect of the 2007 financial year. Sir Ian Prosser retired as a Director on 31 December 2003. However, he had an ongoing healthcare benefit of £1,150 during the year.

5 Long-term reward

Annual Bonus Plan (ABP)

Messrs Cosslett, Porter and Solomons participated in the ABP during the year ended 31 December 2008. Messrs Cosslett and Solomons are expected to receive an award on 23 February 2009. Matching shares are no longer awarded. Directors' pre-tax share interests during the year were:

Directors	ABP Awards held at 1 Jan 2008	ABP Awards during the year 1 Jan 2008 to 31 Dec 2008	Award date	Market price per share at award	ABP shares vested during the year 1 Jan 2008 to 31 Dec 2008	Vesting date	Market price per share at vesting	Value at vesting £	ABP Awards held at 31 Dec 2008	Planned vesting date	Value based on share price of 562p at 31 Dec 2008 £
Andrew Cosslett	28,877[2]		8.3.06	853.67p	28,877	10.3.08	780p	225,241	–		
	28,878[2]		8.3.06	853.67p					28,878	8.3.09	162,294
	55,870[3]		26.2.07	1235p					55,870	26.2.10	313,989
		71,287[4]	25.2.08	819.67p					71,287	25.2.11	400,633
Total									**156,035**		**876,916**
Stevan Porter	26,978[1]		16.3.05	653.67p	26,978	17.3.08	735p	198,288[7]	–		
	18,531[2]		8.3.06	853.67p	18,531	10.3.08	780p	144,542[7]	–		
	18,530[2]		8.3.06	853.67p	18,530	7.11.08[6]	542.5p	100,525	–		
	29,778[3]		26.2.07	1235p	29,778	7.11.08[6]	542.5p	161,546	–		
		35,743[5]	25.2.08	819.67p	35,743	7.11.08[6]	542.5p	193,906	–		
Total									**–**		
Richard Solomons	29,021[1]		16.3.05	653.67p	29,021	17.3.08	735p	213,304	–		
	18,459[2]		8.3.06	853.67p	18,459	10.3.08	780p	143,980	–		
	18,459[2]		8.3.06	853.67p					18,459	8.3.09	103,740
	35,757[3]		26.2.07	1235p					35,757	26.2.10	200,954
		45,634[8]	25.2.08	819.67p					45,634	25.2.11	256,463
Total									**99,850**		**561,157**
Former Directors											
Richard Hartman	29,447[1]		16.3.05	653.67p	29,447	17.3.08	735p	216,435	–		
	17,698[2]		8.3.06	853.67p	17,698	10.3.08	780p	138,044	–		
	17,696[2]		8.3.06	853.67p	17,696	28.3.08[9]	772.5p	136,702	–		
	51,281[3]		26.2.07	1235p	51,281	28.3.08[9]	772.5p	396,146	–		
Total									**–**		

1 This award was based on 2004 financial year performance where the performance measures were related to EPS, EBIT and personal performance. Total shares held include matching shares.

2 This award was based on 2005 financial year performance where the performance measures were related to EPS, EBIT and personal performance. Total shares held include matching shares.

3 This award was based on 2006 financial year performance where the performance measures were related to EPS and EBIT. Total shares held include matching shares.

4 This award was based on 2007 financial year performance where the performance measures were related to Group EBIT and net annual rooms additions. The bonus target was 50% of base salary. Andrew Cosslett was awarded 33% for Group EBIT performance and 19.5% for net annual rooms additions. Andrew Cosslett's total bonus was therefore 52.5% of his base salary. One matching share was awarded for every two bonus shares earned.

5 This award was based on 2007 financial year performance where the performance measures were related to Americas' EBIT and net annual rooms additions. The bonus target was 50% of base salary. Stevan Porter was awarded 25.75% for Americas' EBIT performance and 19.5% for net annual rooms additions. Stevan Porter's total bonus was therefore 45.25% of his base salary. One matching share was awarded for every two bonus shares earned. Stevan Porter also received a cash payment of £3,550.52 in lieu of dividends relating to bonus shares.

6 In accordance with Plan rules, Stevan Porter's ABP shares held at 1 January 2008 and awarded during 2008 (in respect of 2007 performance), and which were due to vest from 2009 onwards, vested early at the discretion of the Remuneration Committee, following his death on 7 August 2008. The value of these entitlements was calculated as at 7 November 2008. A cash payment of £1,525.06 in lieu of dividends relating to bonus shares was paid to his estate. The shares will be transferred to Mr Porter's estate following completion of UK probate in due course.

7 The value of Stevan Porter's shares at vesting includes £31,130 that was chargeable to UK income tax.

8 This award was based on 2007 financial year performance where the performance measures were related to Group EBIT and net annual rooms additions. The bonus target was 50% of base salary. Richard Solomons was awarded 33% for Group EBIT performance and 19.5% for net annual rooms additions. Richard Solomons' total bonus was therefore 52.5% of his base salary. One matching share was awarded for every two bonus shares earned.

9 At the discretion of the Remuneration Committee, all of Richard Hartman's shares vested six months after his retirement date of 25 September 2007.

Remuneration report continued

Long Term Incentive Plan (LTIP)

In 2008, there were three cycles in operation and one cycle which vested.

The awards made in respect of cycles ending on 31 December 2007, 2008, 2009 and 2010 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 2008, the Company finished in third place in the TSR group and achieved a relative cumulative annual growth rate (CAGR) of rooms of 4.9%. Accordingly, 86.7% of the award will vest on 18 February 2009.

Directors	Maximum LTIP Awards held at 1 Jan 2008	Maximum LTIP shares awarded during the year 1 Jan 2008 to 31 Dec 2008	Award date	Market price per share at award	LTIP shares vested during the year 1 Jan 2008 to 31 Dec 2008	Market price per share at vesting	Value at vesting £	Actual/ planned vesting date	Maximum LTIP Awards held at 31 Dec 2008	Maximum value based on share price of 562p at 31 Dec 2008 £	Expected value based on share price of 562p at 31 Dec 2008 £
Andrew Cosslett	276,200[1]		29.6.05	706p	152,738	827p	1,263,143	20.2.08	–		
	200,740[2]		3.4.06	941.5p	–			18.2.09	200,740	1,128,159	978,114[5]
	159,506[3]		2.4.07	1256p	–			17.2.10	159,506	896,424	
		253,559[4]	19.5.08	854p	–			16.2.11	253,559	1,425,001	
Total									**613,805**	**3,449,584**	
Stevan Porter	174,900[1]		29.6.05	706p	96,719	827p	799,866[6]	20.2.08	–		
	132,240[2]		3.4.06	941.5p	125,628	542.5p	681,532[7]	7.11.08	–		
	92,667[3]		2.4.07	1256p	17,811	542.5p	96,625[7]	7.11.08	–		
		147,209[4]	19.5.08	854p	28,029	542.5p	152,057[7]	7.11.08	–		
Total									**–**		
Richard Solomons	176,550[1]		29.6.05	706p	97,632	827p	807,417	20.2.08	–		
	128,470[2]		3.4.06	941.5p	–			18.2.09	128,470	722,001	625,975[5]
	102,109[3]		2.4.07	1256p	–			17.2.10	102,109	573,853	
		161,241[4]	19.5.08	854p	–			16.2.11	161,241	906,174	
Total									**391,820**	**2,202,028**	
Former Directors											
Richard Hartman	196,964[1]		29.6.05	706p	108,921	827p	900,777	20.2.08	–		
	85,230[2]		3.4.06	941.5p	–			18.2.09	85,230	478,993	415,287[5]
	28,432[3]		2.4.07	1256p	–			17.2.10	28,432	159,788	
Total									**113,662**	**638,781**	

1 This award was based on performance to 31 December 2007 where the performance measure related to both the Company's TSR against a group of seven other comparator companies and the CAGR of rooms in the IHG system relative to a group of five other comparator companies. The number of shares released is 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 median position; and b) relative CAGR of rooms with 50% of the award being released for 3.4% (upper quartile) CAGR and 10% of the award being released for 2.4% (median) CAGR. The Company finished in fourth place in the TSR group and achieved a relative CAGR of 3.1%. Accordingly, 55.3% of the award vested on 20 February 2008.

2 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 eight other comparator companies and the CAGR of rooms in the IHG system relative to a group of eight other comparator companies. The number of shares released is 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 median position; and b) relative CAGR of rooms with 50% of the award being released for 3.9% (upper quartile) CAGR and 10% of the award being released for 3.3% (median) CAGR.

3 This award is based on performance to 31 December 2009 where the performance measure relates to both the Company's TSR against a group of eight other comparator companies and the compound annual growth rate in adjusted EPS over the performance period.

4 This award is based on performance to 31 December 2010 where the performance measure relates to both the Company's TSR relative to the index and the compound annual growth rate in adjusted EPS over the performance period.

5 The Company finished in third place in the TSR group and achieved CAGR of rooms of 4.9%. Accordingly, 86.7% of the award will vest on 18 February 2009.

6 The value of Stevan Porter's shares at vesting includes £96,953 that was chargeable to UK Income Tax.

7 In accordance with Plan rules, Stevan Porter's LTIP shares granted in 2006, 2007 and 2008 were pro-rated to reflect his contractual service during the applicable performance periods. The Remuneration Committee calculated the value of these entitlements as at 7 November 2008 at which point they vested. The shares will be transferred to Mr Porter's estate following completion of UK probate in due course.

Share options

Between 2003 and 2005, grants of options were made under the IHG Executive Share Option Plan. No executive share options have been granted since 2005. In 2003, a grant of options was made under the IHG all-employee Sharesave Plan.

	Ordinary shares under option						
Directors	Options held at 1 Jan 2008	Granted during the year	Lapsed during the year	Exercised during the year	Options held at 31 Dec 2008	Weighted average option price (p)	Option price (p)
Andrew Cosslett	157,300						
					157,300[1]		619.83
Total	**157,300**	**–**	**–**	**–**	**157,300**	**619.83**	
Stevan Porter	321,630						
					225,260[2]		494.17
					96,370[2]		619.83
Total	**321,630**	**–**	**–**	**–**	**321,630[2]**	**531.82**	
Richard Solomons	334,639						
					230,320[1]		494.17
					100,550[1]		619.83
					3,769[3]		420.50
Total	**334,639**	**–**	**–**	**–**	**334,639**	**531.10**	

1 Options exercisable at 31 December 2008. Executive share options granted in 2004 are exercisable up to April 2014. Executive share options granted in 2005 are exercisable up to April 2015.

2 Following Stevan Porter's death in August 2008, his outstanding vested executive share options are all exercisable by his personal representatives until 6 August 2009.

3 Sharesave options granted in 2003. These are exercisable between March and August 2009.

Option prices range from 420.50p to 619.83p per IHG share. The closing market value share price on 31 December 2008 was 562.00p and the range during the year was 447.50p to 865.00p per share.

No Director exercised options during the year; therefore there is no disclosable gain by Directors in aggregate for the year ended 31 December 2008 (2007 £nil).

6 Directors' pensions

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

Stevan Porter, until his death on 7 August 2008, had 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.

Remuneration report continued

Directors' pension benefits

Directors	Age at 31 Dec 2008	Directors' contributions in the year[1] £	Transfer value of accrued benefits 1 Jan 2008 £	Transfer value of accrued benefits 31 Dec 2008 £	Increase in transfer value over the year, less Directors' contributions £	Absolute increase in accrued pension[2] £ pa	Increase in accrued pension[3] £ pa	Accrued pension at 31 Dec 2008[4] £ pa
Andrew Cosslett	53	36,600	1,184,200	**2,028,600**	807,800	31,700	28,600	102,600
Richard Solomons	47	23,400	2,371,600	**3,430,800**	1,035,800	28,600	21,300	197,300

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

4 Accrued pension is that which would be paid annually on retirement at 60, based on service to 31 December 2008.

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 2008 were:

	Director's contribution to DCP £	Director's contribution to 401(k) £
Stevan Porter	78,000	6,200

	Company contribution to DCP £	Company contribution to 401(k) £
Stevan Porter	62,700	5,000

By order of the Board

Ralph Kugler
Chairman of the Remuneration Committee
16 February 2009

Group financial statements

In this section we present the statements of Directors' responsibilities, the independent auditor's report and the consolidated financial statements of the Group for 2008.

Group financial statements

Notes to the Group financial statements

Statements of Directors' responsibilities

In relation to the Group financial statements

The following statement, which should be read in conjunction with the independent auditor's report set out on the opposite page, 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 52 to 94 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.

Disclosure and Transparency Rules

The Annual Report and the Group financial statements comply with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority in respect of the requirement to produce an annual financial report.

The Annual Report and the Group financial statements are the responsibility of, and have been approved by, the Directors.

The Directors confirm that to the best of their knowledge:

- the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards;
- the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Annual Report and the Group financial statements include a review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

Andrew Cosslett
Chief Executive
16 February 2009

Richard Solomons
Finance Director
16 February 2009

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 2008 which comprise the Group income statement, Group statement of recognised income and expense, Group cash flow statement, Group balance sheet, accounting policies and the related notes 1 to 34. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of InterContinental Hotels Group PLC for the year ended 31 December 2008 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 that is cross referred from the Business Review, Directors 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 2006 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, Business Review, Directors' Report, Corporate Governance, 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 2008 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.
16 February 2009

Group financial statements

Group income statement

For the year ended 31 December 2008	Note	2008 Before exceptional items $m	2008 Exceptional items (note 5) $m	2008 Total $m	2007 Before exceptional items $m	2007 Exceptional items (note 5) $m	2007 Total $m
Revenue	2	1,854	–	1,854	1,771	–	1,771
Cost of sales		(823)	–	(823)	(825)	–	(825)
Administrative expenses		(400)	(59)	(459)	(377)	(14)	(391)
Other operating income and expenses		14	25	39	16	70	86
		645	(34)	611	585	56	641
Depreciation and amortisation	2	(110)	(2)	(112)	(111)	(2)	(113)
Impairment	2	–	(96)	(96)	–	6	6
Operating profit	2	535	(132)	403	474	60	534
Financial income	6	12	–	12	18	–	18
Financial expenses	6	(113)	–	(113)	(108)	–	(108)
Profit before tax		434	(132)	302	384	60	444
Tax	7	(96)	42	(54)	(84)	60	(24)
Profit for the year from continuing operations		338	(90)	248	300	120	420
Profit for the year from discontinued operations	11	9	5	14	11	32	43
Profit for the year attributable to equity holders of the parent		347	(85)	262	311	152	463
Earnings per ordinary share	9						
Continuing operations:							
Basic				86.4¢			131.3¢
Diluted				83.8¢			127.7¢
Adjusted		117.8¢			93.8¢		
Adjusted diluted		114.2¢			91.2¢		
Total operations:							
Basic				91.3¢			144.7¢
Diluted				88.5¢			140.7¢
Adjusted		120.9¢			97.2¢		
Adjusted diluted		117.2¢			94.5¢		

Notes on pages 56 to 94 form an integral part of these financial statements.

Group statement of recognised income and expense

For the year ended 31 December 2008	2008 $m	2007 restated* $m
Income and expense recognised directly in equity		
(Losses)/gains on valuation of available-for-sale assets	**(4)**	8
Losses on cash flow hedges	**(14)**	(2)
Exchange differences on retranslation of foreign operations	**(57)**	23
Actuarial (losses)/gains on defined benefit pension plans, net of asset restriction	**(50)**	8
	(125)	37
Transfers to the income statement		
On cash flow hedges: financial expenses	**2**	(2)
On disposal of available-for-sale assets: other operating income and expenses	**(17)**	(20)
	(15)	(22)
Tax		
Tax on items above taken directly to or transferred from equity	**22**	11
Tax related to share schemes recognised directly in equity	**2**	(4)
	24	7
Net (expense)/income recognised directly in equity	**(116)**	22
Profit for the year	**262**	463
Total recognised income and expense for the year attributable to the equity holders of the parent	**146**	485

* Restated for IFRIC 14 (see page 56).

Notes on pages 56 to 94 form an integral part of these financial statements.

Group financial statements continued

Group cash flow statement

For the year ended 31 December 2008	2008 $m	2007 $m
Profit for the year	262	463
Adjustments for:		
Net financial expenses	101	90
Income tax charge	59	30
Depreciation and amortisation	112	116
Impairment	96	(6)
Other exceptional operating items	34	(56)
Gain on disposal of assets, net of tax	(5)	(32)
Equity-settled share-based cost, net of payments	31	48
Other non-cash items	3	(4)
Operating cash flow before movements in working capital	693	649
Decrease/(increase) in trade and other receivables	42	(30)
Increase in trade and other payables	81	52
Retirement benefit contributions, net of cost	(27)	(66)
Cash flows relating to exceptional operating items	(49)	–
Cash flow from operations	740	605
Interest paid	(112)	(84)
Interest received	12	18
Tax received/(paid) on operating activities	1	(74)
Net cash from operating activities	641	465
Cash flow from investing activities		
Purchases of property, plant and equipment	(53)	(114)
Purchases of intangible assets	(49)	(40)
Investment in associates and other financial assets	(6)	(32)
Disposal of assets, net of costs and cash disposed of	25	97
Proceeds from associates and other financial assets	61	114
Tax paid on disposals	(3)	(64)
Net cash from investing activities	(25)	(39)
Cash flow from financing activities		
Proceeds from the issue of share capital	2	32
Purchase of own shares	(139)	(162)
Purchase of own shares by employee share trusts	(22)	(138)
Proceeds on release of own shares by employee share trusts	2	21
Dividends paid to shareholders	(118)	(1,524)
(Decrease)/increase in borrowings	(316)	1,108
Net cash from financing activities	(591)	(663)
Net movement in cash and cash equivalents in the year	25	(237)
Cash and cash equivalents at beginning of the year	105	351
Exchange rate effects	(48)	(9)
Cash and cash equivalents at end of the year	82	105

Notes on pages 56 to 94 form an integral part of these financial statements.

Group balance sheet

31 December 2008	Note	2008 $m	2007 restated* $m
ASSETS			
Property, plant and equipment	10	**1,684**	1,934
Goodwill	12	**143**	221
Intangible assets	13	**302**	335
Investment in associates	14	**43**	65
Retirement benefit assets	24	**40**	49
Other financial assets	15	**152**	188
Total non-current assets		**2,364**	2,792
Inventories	16	**4**	6
Trade and other receivables	17	**412**	472
Current tax receivable		**36**	109
Cash and cash equivalents	18	**82**	105
Other financial assets	15	**10**	18
Total current assets		**544**	710
Non-current assets classified as held for sale	11	**210**	115
Total assets	2	**3,118**	3,617
LIABILITIES			
Loans and other borrowings	20	**(21)**	(16)
Trade and other payables	19	**(746)**	(784)
Current tax payable		**(374)**	(426)
Total current liabilities		**(1,141)**	(1,226)
Loans and other borrowings	20	**(1,334)**	(1,748)
Retirement benefit obligations	24	**(129)**	(112)
Trade and other payables	19	**(392)**	(279)
Deferred tax payable	26	**(117)**	(148)
Total non-current liabilities		**(1,972)**	(2,287)
Liabilities classified as held for sale	11	**(4)**	(6)
Total liabilities	2	**(3,117)**	(3,519)
Net assets		**1**	98
EQUITY			
Equity share capital	28	**118**	163
Capital redemption reserve	28	**10**	10
Shares held by employee share trusts	28	**(49)**	(83)
Other reserves	28	**(2,890)**	(2,918)
Unrealised gains and losses reserve	28	**9**	38
Currency translation reserve	28	**172**	233
Retained earnings	28	**2,624**	2,649
IHG shareholders' equity		**(6)**	92
Minority equity interest	29	**7**	6
Total equity		**1**	98

* Restated for IFRIC 14 (see page 56).

Signed on behalf of the Board

Richard Solomons
16 February 2009

Notes on pages 56 to 94 form an integral part of these financial statements.

GROUP FINANCIAL STATEMENTS

Accounting policies

General information

The consolidated financial statements of InterContinental Hotels Group PLC (the Group or IHG) for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the Directors on 16 February 2009. 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 of IHG have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 1985.

The Group early adopted International Financial Reporting Interpretations Committee Interpretation 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' (IFRIC 14) at 31 December 2007. IFRIC 14 provides guidance on assessing the limit in International Accounting Standard 19 'Employee Benefits' (IAS 19) on the amount of the surplus that can be recognised as an asset. The 31 December 2007 balance sheet has subsequently been restated to show the retirement benefit assets net of tax of $17m previously recorded within deferred tax payable. There have been corresponding changes to the actuarial gains and related tax reported in the restated Group statement of recognised income and expense for the year ended 31 December 2007. There is no change to previously reported net assets or income.

Other 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.

Change in presentational currency

The consolidated financial statements are presented in US dollars following a management decision to change the reporting currency from sterling during the year. The change has been made to reflect the profile of the Group's revenue and operating profit which are now primarily generated in US dollars or US dollar-linked currencies. All comparative information has been restated into US dollars and values are rounded to the nearest million ($m) except where otherwise indicated.

The currency translation reserve was set to nil at 1 January 2004 on transition to IFRS and this reserve has been re-presented on the basis that the Group has reported in US dollars since this date. Equity share capital, the capital redemption reserve and shares held by employee share trusts are translated into US dollars at the rates of exchange on the balance sheet date; the resultant exchange differences are recorded in other reserves.

The functional currency of the parent company remains sterling since this is a non-trading holding company located in the United Kingdom that has sterling denominated share capital and whose primary activity is the receipt and payment of interest on sterling denominated inter-company balances.

Basis of consolidation

The Group financial statements comprise the financial statements of the parent company and entities controlled by the Company. All intra-group 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 US dollars at the relevant rates of exchange ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into US dollars at 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

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.

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 derivatives are recognised in financial income and expense unless they form part of effective hedge relationships.

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 but will be, if material, from 1 January 2009 on adoption of the amendment to IAS 23 'Borrowing Costs'.

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; and

fixtures, fittings and equipment – three to 25 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 costs 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.

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'.

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 five 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
The Group classifies its financial assets into one of the two following categories: loans and receivables or available-for-sale financial assets. Management determines the classification on initial recognition and they are subsequently held at amortised cost (loans and receivables) or fair value (available-for-sale financial assets). Interest on loans and receivables is calculated using the effective interest rate method and is recognised in the income statement as interest income. Changes in fair values of available-for-sale financial assets are recorded directly in equity within the unrealised gains and losses reserve. On disposal, the accumulated fair value adjustments recognised in equity are recycled to the income statement. Dividends from available-for-sale financial assets are recognised in the income statement as other operating income and expenses.

Financial assets are tested for impairment at each balance sheet date. If an available-for-sale financial asset is impaired, the difference between original cost and fair value is transferred from equity to the income statement to the extent of any cumulative loss recorded in equity, with any excess charged directly to the income statement.

Financial liabilities
Financial liabilities are measured at amortised cost using the effective interest rate method. A financial liability is derecognised when the obligation under the liability expires, is discharged or cancelled.

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

Accounting policies continued

Trade receivables
Trade receivables are recorded at their original amount less provision for impairment. It is the Group's policy to provide for 100% of the previous month's aged receivables balances which are more than 180 days past due. Adjustments to the policy may be made due to specific or exceptional circumstances when collection is no longer considered probable. The carrying amount of the receivable is reduced through the use of a provision account and movements in the provision are recognised in the income statement within cost of sales. When a previously provided trade receivable is uncollectable, it is written off against the provision.

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 fair value less costs 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 branded 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 eventual redemption rates determined by actuarial methods 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 insurable risks including 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.

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.

Retirement 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 difference between the value of plan assets and liabilities at the balance sheet date is the amount of surplus or deficit recorded on the balance sheet as an asset or liability. An asset is recognised when the employer has an unconditional right to use the surplus at some point during the life of the plan or on its wind up. If a refund would be subject to a tax other than income tax, as is the case in the UK, the asset is recorded at the amount net of the tax.

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 including interest. 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 and other revenues which are ancillary to the Group's operations, including technology fee income.

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 or other 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 the 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.

Accounting policies continued

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.

Exceptional items
The Group discloses certain financial information both including and excluding exceptional items. The presentation of information excluding exceptional items allows a better understanding of the underlying trading performance of the Group and provides consistency with the Group's internal management reporting. Exceptional items are identified by virtue of either their size or nature so as to facilitate comparison with prior periods and to assess underlying trends in financial performance. Exceptional 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.

Retirement 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. Deferred tax balances are dependent on management's expectations regarding the manner and timing of recovery of the related assets.

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.

Trade receivables – a provision for impairment 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 have 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 will be adopted in accordance with the effective date. 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 2	Share-based Payment (Amendment) Effective from 1 January 2009
IFRS 3R	Business Combinations Effective from 1 July 2009
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations (Amendment) Effective from 1 July 2009
IFRS 8	Operating Segments Effective from 1 January 2009
IAS 1	Presentation of Financial Statements (Amendment) Effective from 1 January 2009
IAS 23	Borrowing Costs (Amendment) Effective from 1 January 2009
IAS 27R	Consolidated and Separate Financial Statements Effective from 1 July 2009
IFRIC 13	Customer Loyalty Programmes Effective from 1 July 2008
IFRIC 16	Hedges of a Net Investment in a Foreign Operation Effective from 1 October 2008

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

Notes to the Group financial statements

1 Exchange rates

The results of operations have been translated into US dollars at the average rates of exchange for the year. In the case of sterling, the translation rate is $1=£0.55 (2007 $1=£0.50). In the case of the euro, the translation rate is $1=€0.68 (2007 $1=€0.73).

Assets and liabilities have been translated into US dollars at the rates of exchange on the balance sheet date. In the case of sterling, the translation rate is $1=£0.69 (2007 $1=£0.50). In the case of the euro, the translation rate is $1=€0.71 (2007 $1=€0.68).

2 Segmental information

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

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. Central functions include costs of global functions, including technology, sales and marketing, finance, human resources and corporate services; revenue arises principally from technology fee income.

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 reservations 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 reservations 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.

Notes to the Group financial statements continued

2 Segmental information continued

Year ended 31 December 2008	Americas $m	EMEA $m	Asia Pacific $m	Central $m	Group $m
Revenue					
Owned and leased	257	240	159	–	656
Managed	168	168	113	–	449
Franchised	495	110	18	–	623
Central	–	–	–	126	126
Continuing operations	**920**	**518**	**290**	**126**	**1,854**
Discontinued operations – owned and leased	43	–	–	–	43
	963	**518**	**290**	**126**	**1,897**

	Americas $m	EMEA $m	Asia Pacific $m	Central $m	Group $m
Segmental result					
Owned and leased	41	45	43	–	129
Managed	51	95	55	–	201
Franchised	426	75	8	–	509
Regional and central	(67)	(44)	(38)	(155)	(304)
Continuing operations	451	171	68	(155)	535
Exceptional operating items	(99)	(21)	(2)	(10)	(132)
Operating profit	**352**	**150**	**66**	**(165)**	**403**
Discontinued operations – owned and leased	14	–	–	–	14
	366	**150**	**66**	**(165)**	**417**

	Continuing $m	Discontinued $m	Group $m
Operating profit before exceptional items	535	14	549
Exceptional operating items	(132)	–	(132)
Operating profit	**403**	**14**	**417**
Net finance costs	(101)	–	(101)
Profit before tax	302	14	316
Tax	(54)	(5)	(59)
Profit after tax	248	9	257
Gain on disposal of assets, net of tax	–	5	5
Profit for the year	**248**	**14**	**262**

2 Segmental information continued

Year ended 31 December 2008	Americas $m	EMEA $m	Asia Pacific $m	Central $m	Group $m
Assets and liabilities					
Segment assets	1,031	957	613	189	2,790
Non-current assets classified as held for sale	209	1	–	–	210
	1,240	958	613	189	3,000
Unallocated assets:					
Current tax receivable					36
Cash and cash equivalents					82
Total assets					**3,118**
Segment liabilities	(638)	(470)	(159)	–	(1,267)
Liabilities classified as held for sale	(4)	–	–	–	(4)
	(642)	(470)	(159)	–	(1,271)
Unallocated liabilities:					
Current tax payable					(374)
Deferred tax payable					(117)
Loans and other borrowings					(1,355)
Total liabilities					**(3,117)**

	Americas $m	EMEA $m	Asia Pacific $m	Central $m	Group $m
Other segmental information					
Continuing operations:					
Capital expenditure[a]	12	7	13	76	108
Additions to:					
Property, plant and equipment	43	2	10	36	91
Intangible assets	7	–	2	40	49
Depreciation and amortisation[b]	31	35	26	20	112
Impairment losses	75	21	–	–	96

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

b Included in the $112m of depreciation and amortisation is $32m relating to administrative expenses and $80m relating to cost of sales.

Notes to the Group financial statements continued

2 **Segmental information** continued

Year ended 31 December 2007	Americas $m	EMEA $m	Asia Pacific $m	Central $m	Group $m
Revenue					
Owned and leased	257	244	145	–	646
Managed	156	167	99	–	422
Franchised	489	81	16	–	586
Central	–	–	–	117	117
Continuing operations	902	492	260	117	1,771
Discontinued operations – owned and leased	62	17	–	–	79
	964	509	260	117	1,850

	Americas $m	EMEA $m	Asia Pacific $m	Central $m	Group $m
Segmental result					
Owned and leased	40	33	36	–	109
Managed	41	87	46	–	174
Franchised	425	58	6	–	489
Regional and central	(66)	(44)	(25)	(163)	(298)
Continuing operations	440	134	63	(163)	474
Exceptional operating items	17	21	17	5	60
Operating profit	457	155	80	(158)	534
Discontinued operations – owned and leased	16	1	–	–	17
	473	156	80	(158)	551

	Continuing $m	Discontinued $m	Group $m
Operating profit before exceptional items	474	17	491
Exceptional operating items	60	–	60
Operating profit	534	17	551
Net finance costs	(90)	–	(90)
Profit before tax	444	17	461
Tax	(24)	(6)	(30)
Profit after tax	420	11	431
Gain on disposal of assets, net of tax	–	32	32
Profit for the year	420	43	463

2 Segmental information continued

Year ended 31 December 2007*	Americas $m	EMEA $m	Asia Pacific $m	Central $m	Group $m
Assets and liabilities					
Segment assets	1,233	1,216	672	167	3,288
Non-current assets classified as held for sale	115	–	–	–	115
	1,348	1,216	672	167	3,403
Unallocated assets:					
Current tax receivable					109
Cash and cash equivalents					105
Total assets					3,617
Segment liabilities	(562)	(477)	(136)	–	(1,175)
Liabilities classified as held for sale	(6)	–	–	–	(6)
	(568)	(477)	(136)	–	(1,181)
Unallocated liabilities:					
Current tax payable					(426)
Deferred tax payable					(148)
Loans and other borrowings					(1,764)
Total liabilities					(3,519)

	Americas $m	EMEA $m	Asia Pacific $m	Central $m	Group $m
Other segmental information					
Continuing operations:					
Capital expenditure[a]	57	41	40	46	184
Additions to:					
Property, plant and equipment	32	28	28	20	108
Intangible assets	9	9	6	26	50
Depreciation and amortisation[b]	33	35	22	23	113
Reversal of previously recorded impairment	–	–	6	–	6
Discontinued operations:					
Capital expenditure[a]	1	1	–	–	2
Depreciation and amortisation[b]	1	2	–	–	3

* Restated for IFRIC 14 (see page 56).

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

b Included in the $116m of depreciation and amortisation is $35m relating to administrative expenses and $81m relating to cost of sales.

Notes to the Group financial statements continued

3 Staff costs and Directors' emoluments

	2008 $m	2007 $m
Staff		
Costs:		
Wages and salaries	588	586
Social security costs	55	61
Pension and other post-retirement benefits:		
Defined benefit plans (note 24)	8	8
Defined contribution plans	30	25
	681	680

	2008	2007
Average number of employees, including part-time employees:		
Americas	3,570	3,761
EMEA	2,012	2,249
Asia Pacific	1,481	1,514
Central	1,271	1,150
	8,334	8,674

The costs of the above employees are borne by IHG. In addition, the Group employs 4,037 (2007 3,695) people who work in managed hotels or directly on behalf of the system funds and whose costs of $235m (2007 $216m) are borne by those hotels or by the funds.

	2008 $m	2007 $m
Directors' emoluments		
Base salaries, fees, performance payments and benefits	7.8	9.3

More detailed information on the emoluments, pensions, option holdings and shareholdings for each Director is shown in the Remuneration Report on pages 40 to 48.

4 Auditor's remuneration paid to Ernst & Young LLP

	2008 $m	2007 $m
Group audit fees	1.7	2.8
Audit fees in respect of subsidiaries	1.5	2.6
Tax fees	1.0	0.8
Interim review fees	0.4	0.4
Other services pursuant to legislation	0.1	0.2
Other	2.8	2.4
	7.5	9.2

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.

5 Exceptional items

	Note	2008 $m	2007 $m
Continuing operations			
Exceptional operating items:			
Administrative expenses:			
Holiday Inn brand relaunch	a	(35)	–
Office reorganisations	b	(5)	(14)
Severance costs	c	(19)	–
		(59)	(14)
Other operating income and expenses:			
Gain on sale of associate investments		13	22
Gain on sale of other financial assets		14	36
Loss on disposal of hotels (note 11)*		(2)	–
Office reorganisations	b	–	12
		25	70
Depreciation and amortisation:			
Office reorganisations	b	(2)	(2)
Impairment:			
Property, plant and equipment (note 10)		(12)	6
Goodwill (note 12)		(63)	–
Intangible assets (note 13)		(21)	–
		(96)	6
		(132)	60
Tax:			
Tax on exceptional operating items		17	–
Exceptional tax credit	d	25	60
		42	60
Discontinued operations			
Gain on disposal of assets (note 11):			
Gain on disposal of hotels**		–	40
Tax charge		5	(8)
		5	32

* Relates to hotels classified as continuing operations.

** Relates to hotels classified as discontinued operations.

The above items are treated as exceptional by reason of their size or nature.

a Relates to costs incurred in support of the worldwide relaunch of the Holiday Inn brand family that was announced on 24 October 2007.

b Relates to further costs incurred on the relocation of the Group's head office and the closure of its Aylesbury facility.

c Severance costs relate to redundancies arising from a review of the Group's cost base in light of the current economic climate.

d Relates to the release of provisions which are exceptional by reason of their size or nature relating to tax matters which have been settled or in respect of which the relevant statutory limitation period has expired.

Notes to the Group financial statements continued

6 Finance costs

	2008 $m	2007 $m
Financial income		
Interest income	11	15
Fair value gains	1	3
	12	18
Financial expenses		
Interest expense	95	90
Finance charge payable under finance leases	18	18
	113	108

Interest income and expense relate to financial assets and liabilities held at amortised cost, calculated using the effective interest rate method.

Included within interest expense is $12m (2007 $21m) payable to the Group's loyalty programme relating to interest on the accumulated balance of cash received in advance of the redemption of points awarded.

7 Tax

	Note	2008 $m	2007 $m
Income tax			
UK corporation tax at 28.5% (2007 30.0%):			
Current period		13	45
Benefit of tax reliefs on which no deferred tax previously recognised		–	(1)
Adjustments in respect of prior periods		(28)	(33)
		(15)	11
Foreign tax:	a		
Current period		130	200
Benefit of tax reliefs on which no deferred tax previously recognised		(6)	(15)
Adjustments in respect of prior periods		(63)	(100)
		61	85
Total current tax		46	96
Deferred tax:			
Origination and reversal of temporary differences		26	(67)
Changes in tax rates		(1)	(4)
Adjustments to estimated recoverable deferred tax assets		(4)	5
Adjustments in respect of prior periods		(13)	8
Total deferred tax		8	(58)
Total income tax charge on profit for the year		54	38
Further analysed as tax relating to:			
Profit before exceptional items		101	90
Exceptional items (note 5):			
Exceptional operating items		(17)	–
Exceptional tax credit	b	(25)	(60)
Gain on disposal of assets		(5)	8
		54	38
The total tax charge can be further analysed as relating to:			
Profit on continuing operations		54	24
Profit on discontinued operations		5	6
Gain on disposal of assets		(5)	8
		54	38

a Represents corporate income taxes on profit taxable in foreign jurisdictions, a significant proportion of which relates to the Group's US subsidiaries.

b Represents the release of provisions which are exceptional by reason of their size or nature relating to tax matters which have been settled or in respect of which the relevant statutory limitation period has expired.

7 Tax continued

	2008 %	2007 %
Reconciliation of tax charge on total profit, including gain on disposal of assets		
UK corporation tax at standard rate	28.5	30.0
Non-deductible expenditure and non-taxable income	8.7	5.6
Net effect of different rates of tax in overseas businesses	10.1	1.8
Effect of changes in tax rates	(0.2)	(1.0)
Benefit of tax reliefs on which no deferred tax previously recognised	(1.7)	(3.3)
Effect of adjustments to estimated recoverable deferred tax assets	(1.1)	1.3
Adjustment to tax charge in respect of prior periods	(23.5)	(11.0)
Other	(0.8)	0.4
Exceptional items and gain on disposal of assets	(2.9)	(16.3)
	17.1	7.5

Tax paid

Total net tax paid during the year of $2m (2007 $138m) comprises $1m received (2007 $74m paid) in respect of operating activities and $3m paid (2007 $64m) in respect of investing activities.

Tax paid is lower than the current period income tax charge primarily due to the receipt of refunds in respect of prior years together with provisions for tax for which no payment of tax has currently been made.

Tax risks, policies and governance

It is the Group's objective to comply fully with its worldwide corporate income tax filing, payment and reporting obligations, whilst managing its tax affairs within acceptable risk parameters in order to minimise its worldwide liabilities in the best interests of its shareholders. The Group adopts a policy of open co-operation with tax authorities, with full disclosure of relevant issues.

The Group's tax objectives and policies, and any changes thereto, are reviewed and approved by the Audit Committee. Regular tax reports are made to the Finance Director in addition to an annual presentation to the Audit Committee covering the Group's tax position, strategy and major risks. Tax is also encompassed within the Group's formal risk management procedures and any material tax disputes, litigation or tax planning activities are subject to internal risk review and management approval procedures.

8 Dividends paid and proposed

	2008 cents per share	2007 cents per share	2008 $m	2007 $m
Paid during the year:				
Final (declared in previous year)	29.2	25.9	86	92
Interim	12.2	11.5	32	35
Special interim	–	400.0	–	1,397
	41.4	437.4	118	1,524
Proposed (not recognised as a liability at 31 December):				
Final	29.2	29.2	83	86

The final dividend of 20.2p (29.2¢ converted at the closing exchange rate on 13 February 2009) is proposed for approval at the Annual General Meeting on 29 May 2009 and is payable on the shares in issue at 27 March 2009.

Notes to the Group financial statements continued

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.

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

	2008		2007	
	Continuing operations	Total	Continuing operations	Total
Basic earnings per ordinary share				
Profit available for equity holders ($m)	248	262	420	463
Basic weighted average number of ordinary shares (millions)	287	287	320	320
Basic earnings per ordinary share (cents)	86.4	91.3	131.3	144.7
Diluted earnings per ordinary share				
Profit available for equity holders ($m)	248	262	420	463
Diluted weighted average number of ordinary shares (millions)	296	296	329	329
Diluted earnings per ordinary share (cents)	83.8	88.5	127.7	140.7

	2008 millions	2007 millions
Diluted weighted average number of ordinary shares is calculated as:		
Basic weighted average number of ordinary shares	287	320
Dilutive potential ordinary shares – employee share options	9	9
	296	329

	2008		2007	
	Continuing operations	Total	Continuing operations	Total
Adjusted earnings per ordinary share				
Profit available for equity holders ($m)	248	262	420	463
Adjusting items (note 5):				
Exceptional operating items ($m)	132	132	(60)	(60)
Tax on exceptional operating items ($m)	(17)	(17)	–	–
Exceptional tax credit ($m)	(25)	(25)	(60)	(60)
Gain on disposal of assets, net of tax ($m)	–	(5)	–	(32)
Adjusted earnings ($m)	338	347	300	311
Basic weighted average number of ordinary shares (millions)	287	287	320	320
Adjusted earnings per ordinary share (cents)	117.8	120.9	93.8	97.2
Adjusted earnings ($m)	338	347	300	311
Diluted weighted average number of ordinary shares (millions)	296	296	329	329
Adjusted diluted earnings per ordinary share (cents)	114.2	117.2	91.2	94.5

10 Property, plant and equipment

	Land and buildings $m	Fixtures, fittings and equipment $m	Total $m
Cost			
At 1 January 2007	1,610	993	2,603
Additions	10	98	108
Reclassifications	31	(41)	(10)
Net transfers to non-current assets classified as held for sale	(77)	(88)	(165)
Disposals	(14)	(38)	(52)
Exchange and other adjustments	46	31	77
At 31 December 2007	1,606	955	2,561
Additions	6	85	91
Net transfers to non-current assets classified as held for sale	(119)	(60)	(179)
Disposals	(15)	(24)	(39)
Exchange and other adjustments	(112)	(56)	(168)
At 31 December 2008	**1,366**	**900**	**2,266**
Depreciation			
At 1 January 2007	(160)	(487)	(647)
Provided	(12)	(66)	(78)
Net transfers to non-current assets classified as held for sale	33	31	64
Reversal of impairment	–	6	6
On disposals	14	36	50
Exchange and other adjustments	(4)	(18)	(22)
At 31 December 2007	(129)	(498)	(627)
Provided	(11)	(61)	(72)
Net transfers to non-current assets classified as held for sale	37	37	74
Impairment charge	(12)	–	(12)
On disposals	15	25	40
Exchange and other adjustments	–	15	15
At 31 December 2008	**(100)**	**(482)**	**(582)**
Net book value			
At 31 December 2008	**1,266**	**418**	**1,684**
At 31 December 2007	1,477	457	1,934
At 1 January 2007	1,450	506	1,956

The impairment charge relates to a North American hotel and arises from year-end value in use calculations, taking into account the current economic climate. Estimated future cash flows have been discounted at 13.5%. The charge has been included within impairment on the Group income statement and relates to the Americas business segment.

At 31 December 2007, a previously recorded impairment charge of $6m was reversed, relating to a hotel in the Asia Pacific business segment.

The carrying value of land and buildings held under finance leases at 31 December 2008 was $192m (2007 $208m).

The carrying value of assets in the course of construction was $41m (2007 $nil).

Notes to the Group financial statements continued

11 Assets sold, held for sale and discontinued operations

During the year ended 31 December 2008, the Group sold one hotel (2007 three hotels) and two associates (2007 two associates), continuing the asset disposal programme commenced in 2003. Three hotels and two associates were classified as held for sale during the year. At 31 December 2008, five hotels (2007 three hotels) were classified as held for sale.

	2008 $m	2007 $m
Net assets of hotels sold		
Property, plant and equipment	28	70
Net working capital	–	2
Cash and cash equivalents	8	–
Minority equity interest	–	(12)
Group's share of net assets disposed of	36	60
Consideration		
Current year disposals:		
Cash consideration, net of costs paid	34	94
Management contract value	–	6
	34	100
Net assets disposed of	(36)	(60)
Tax	5	(8)
Gain on disposal of assets, net of tax	3	32
Analysed as:		
Continuing operations	(2)	–
Discontinued operations	5	32
	3	32
Net cash inflow		
Current year disposals:		
Cash consideration, net of costs paid	34	94
Cash disposed of	(8)	–
Prior year disposals	(1)	3
	25	97

11 Assets sold, held for sale and discontinued operations continued

	2008 $m	2007 $m
Assets and liabilities held for sale		
Non-current assets classified as held for sale:		
Property, plant and equipment	210	115
Liabilities classified as held for sale:		
Deferred tax (note 26)	(4)	(6)

	2008 $m	2007 $m
Results of discontinued operations		
Revenue	43	79
Cost of sales	(29)	(59)
	14	20
Depreciation and amortisation	–	(3)
Operating profit	14	17
Tax	(5)	(6)
Profit after tax	9	11
Gain on disposal of assets, net of tax (note 5)	5	32
Profit for the year from discontinued operations	14	43

	2008 cents per ordinary share	2007 cents per ordinary share
Earnings per ordinary share from discontinued operations		
Basic	4.9	13.4
Diluted	4.7	13.0

	2008 $m	2007 $m
Cash flows attributable to discontinued operations		
Operating profit before interest, depreciation and amortisation	14	20
Investing activities	–	(2)

The effect of discontinued operations on segmental results is shown in note 2.

Notes to the Group financial statements continued

12 Goodwill

	2008 $m	2007 $m
At 1 January	221	214
Impairment charge	(63)	–
Exchange and other adjustments	(15)	7
At 31 December	143	221

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:

	2008 $m	2007 $m
Americas managed operations	78*	141
Asia Pacific managed and franchised operations	65	80
	143	221

* $141m before impairment charge.

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. These calculations use pre-tax cash flow forecasts derived from the most recent financial budgets approved by management for the next year and extrapolate cash flows for the following four years using growth rates based on management expectations and industry growth forecasts. After this period, the terminal value of future cash flows is calculated based on perpetual growth rates that do not exceed the average long-term growth rates for the relevant markets. The cash flows are discounted using management estimates of the pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs.

The key assumptions used for the value in use calculations are as follows:

	Year 2 to 5 growth rates		Perpetual growth rates		Discount rates	
	2008 %	2007 %	2008 %	2007 %	2008 %	2007 %
Americas managed operations	1.0-4.0	4.0	2.7	2.7	12.5	10.0
Asia Pacific managed and franchised operations	2.5-10.0	15.0	4.0	4.0	16.0	11.0

The impairment charge arises in respect of the Americas managed operations CGU reflecting revised fee expectations in light of the current economic climate. The charge has been included within impairment on the Group income statement and relates to the Americas business segment.

At 31 December 2008, the recoverable amount of the Americas managed operations equalled its carrying value and consequently any adverse change in key assumptions would cause the carrying value of the CGU to exceed its recoverable amount. In respect of the Asia Pacific managed and franchised operations CGU, management believe that the carrying value of the CGU would only exceed its recoverable amount 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 2007	85	229	71	385
Additions	26	10	14	50
Reclassification	10	–	–	10
Disposals	(1)	–	(1)	(2)
Exchange and other adjustments	–	10	2	12
At 31 December 2007	120	249	86	455
Additions	40	–	9	49
Disposals	(2)	–	–	(2)
Exchange and other adjustments	–	(29)	(2)	(31)
At 31 December 2008	**158**	**220**	**93**	**471**
Amortisation				
At 1 January 2007	(45)	(14)	(24)	(83)
Provided	(19)	(12)	(7)	(38)
Disposals	1	–	1	2
Exchange and other adjustments	–	–	(1)	(1)
At 31 December 2007	(63)	(26)	(31)	(120)
Provided	(20)	(12)	(8)	(40)
Impairment charge	–	(21)	–	(21)
Disposals	2	–	–	2
Exchange and other adjustments	–	9	1	10
At 31 December 2008	**(81)**	**(50)**	**(38)**	**(169)**
Net book value				
At 31 December 2008	**77**	**170**	**55**	**302**
At 31 December 2007	57	223	55	335
At 1 January 2007	40	215	47	302

The weighted average remaining amortisation period for management contracts is 23 years (2007 24 years).

The impairment charge relates to the value of management contracts capitalised as a result of related asset disposals in prior years and arises from a revision to expected fee income. Estimated future cash flows have been discounted at 12.5% (previous valuation: 10.0%). The charge has been included within impairment on the Group income statement and relates to the EMEA business segment.

14 Investment in associates

The Group holds five investments (2007 seven) accounted for as associates. The following table summarises the financial information of the associates:

	2008 $m	2007 $m
Share of associates' balance sheet		
Current assets	**5**	6
Non-current assets	**65**	104
Current liabilities	**(20)**	(16)
Non-current liabilities	**(7)**	(29)
Net assets	**43**	65
Share of associates' revenue and profit		
Revenue	**30**	32
Net profit	**–**	2
Related party transactions		
Revenue from related parties	**5**	6
Amounts owed by related parties	**2**	2

Notes to the Group financial statements continued

15 Other financial assets

	2008 $m	2007 $m
Non-current		
Equity securities available-for-sale	64	93
Other	88	95
	152	188
Current		
Equity securities available-for-sale	6	–
Other	4	18
	10	18

Available-for-sale financial assets, which are held on the balance sheet at fair value, consist of equity investments in listed and unlisted shares. Of the total amount of equity investments at 31 December 2008, $2m (2007 $3m) were listed securities and $68m (2007 $90m) unlisted; $44m (2007 $56m) were denominated in US dollars, $13m (2007 $16m) in Hong Kong dollars and $13m (2007 $21m) in other currencies. Unlisted equity shares are mainly investments in entities that own hotels which the Group manages. 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. Dividend income from available-for-sale equity securities of $11m (2007 $16m) is reported as other operating income and expenses in the Group income statement.

Other financial assets consist of trade deposits, restricted cash and deferred consideration on asset disposals. These amounts have been designated as 'loans and receivables' and are held at amortised cost. Restricted cash of $55m (2007 $54m) relates to cash held in bank accounts which is pledged as collateral to insurance companies for risks retained by the Group.

The movement in the provision for impairment of other financial assets during the year is as follows:

	2008 $m	2007 $m
At 1 January	(9)	(41)
Provided	(2)	–
Recoveries	–	3
Disposals	–	5
Amounts written off against the financial asset	–	24
At 31 December	(11)	(9)

The provision is used to record impairment losses unless the Group is satisfied that no recovery of the amount is possible; at that point the amount considered irrecoverable is written off against the financial asset directly with no impact on the income statement.

16 Inventories

	2008 $m	2007 $m
Finished goods	2	3
Consumable stores	2	3
	4	6

17 Trade and other receivables

	2008 $m	2007 $m
Trade receivables	318	362
Other receivables	49	59
Prepayments	45	51
	412	472

Trade and other receivables are designated as 'loans and receivables' and are held at amortised cost.

Trade receivables are non-interest-bearing and are generally on payment terms of up to 30 days. The fair value of trade and other receivables approximates their carrying value.

The maximum exposure to credit risk for trade and other receivables, excluding prepayments, at the balance sheet date by geographic region is:

	2008 $m	2007 $m
Americas	208	231
Europe, Middle East and Africa	109	141
Asia Pacific	50	49
	367	421

The aging of trade and other receivables, excluding prepayments, at the balance sheet date is:

	2008			2007		
	Gross $m	Provision $m	Net $m	Gross $m	Provision $m	Net $m
Not past due	254	(13)	241	286	(2)	284
Past due 1 to 30 days	61	(1)	60	74	(3)	71
Past due 31 to 180 days	63	(5)	58	77	(15)	62
Past due more than 180 days	99	(91)	8	80	(76)	4
	477	(110)	367	517	(96)	421

The movement in the provision for impairment of trade and other receivables during the year is as follows:

	2008 $m	2007 $m
At 1 January	(96)	(85)
Provided	(28)	(23)
Amounts written off	14	12
At 31 December	(110)	(96)

18 Cash and cash equivalents

	2008 $m	2007 $m
Cash at bank and in hand	32	53
Short-term deposits	50	52
	82	105

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

Notes to the Group financial statements continued

19 Trade and other payables

	2008 $m	2007 $m
Current		
Trade payables	111	100
Other tax and social security payable	31	39
Other payables	322	345
Accruals	272	297
Derivatives	10	3
	746	784
Non-current		
Other payables	392	279

Trade payables are non-interest-bearing and are normally settled within 45 days.

Other payables include $471m (2007 $426m) relating to the future redemption liability of the Group's loyalty programme, of which $96m (2007 $169m) is classified as current and $375m (2007 $257m) as non-current.

Derivatives are held on the Group balance sheet at fair value. Fair value is estimated using discounted future cash flows taking into consideration interest and exchange rates prevailing at the balance sheet date.

20 Loans and other borrowings

	2008			2007		
	Current $m	Non-current $m	Total $m	Current $m	Non-current $m	Total $m
Secured bank loans	5	2	7	–	7	7
Finance leases	16	186	202	16	184	200
Unsecured bank loans	–	1,146	1,146	–	1,557	1,557
Total borrowings	21	1,334	1,355	16	1,748	1,764
Denominated in the following currencies:						
Sterling	–	152	152	–	553	553
US dollars	16	873	889	16	854	870
Euro	–	224	224	–	243	243
Other	5	85	90	–	98	98
	21	1,334	1,355	16	1,748	1,764

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.

Finance leases

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

	2008		2007	
	Minimum lease payments $m	Present value of payments $m	Minimum lease payments $m	Present value of payments $m
Less than one year	16	16	16	16
Between one and five years	64	48	64	47
More than five years	3,380	138	3,396	137
	3,460	202	3,476	200
Less: amount representing finance charges	(3,258)	–	(3,276)	–
	202	202	200	200

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.

20 Loans and other borrowings continued

Unsecured bank loans

Unsecured bank loans are borrowings under the Group's Syndicated Facility and its short-term bilateral loan facilities. Amounts are classified as non-current when the facilities have more than 12 months to expiry. These facilities contain financial covenants and, as at the balance sheet date, the Group was not in breach of these covenants, nor had any breaches or defaults occurred during the year. In the second quarter of 2008, the Group successfully refinanced $2.1bn of long-term debt facilities. This new syndicated bank facility consists of two tranches; a $1.6bn five-year revolving credit facility and a $0.5bn term loan with a 30-month maturity. Unsecured bank loans are shown net of the facility fee capitalised during the year.

			2008			2007
Facilities provided by banks	Utilised $m	Unutilised $m	Total $m	Utilised $m	Unutilised $m	Total $m
Committed	1,161	946	2,107	1,564	757	2,321
Uncommitted	–	25	25	–	50	50
	1,161	971	2,132	1,564	807	2,371

	2008 $m	2007 $m
Unutilised facilities expire:		
Within one year	25	150
After one but before two years	–	657
After two but before five years	946	–
	971	807

21 Financial risk management policies

Overview

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.

Market risk exposure

The US dollar is the predominant currency of the Group's revenue and cash flows. Movements in foreign exchange rates can affect the Group's reported profit, net assets and interest cover. To hedge translation exposure, wherever possible, 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 to reflect the predominant trading currency.

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

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

Based on the year end net debt position and given the underlying maturity profile of investments, borrowings and hedging instruments at that date, a one percentage point rise in US dollar interest rates would increase the annual net interest charge by approximately $4.7m (2007 $5.8m). A similar rise in euro and sterling interest rates would increase the annual net interest charge by approximately $1.2m (2007 $1.2m) and $0.9m (2007 $3.2m) respectively.

A general strengthening of the US dollar (specifically a five cent fall in the sterling:US dollar rate) would increase the Group's profit before tax by an estimated $4.0m (2007 $2.9m) and decrease net assets by an estimated $1.1m (2007 increase of $6.1m). Similarly, a five cent fall in the euro:US dollar rate would reduce the Group's profit before tax by an estimated $2.0m (2007 $1.6m) and decrease net assets by an estimated $4.3m (2007 $5.9m).

Liquidity risk exposure

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 $946m of undrawn committed facilities. Medium and long-term borrowing requirements are met through the $2.1bn Syndicated Facility of which $0.5bn expires in November 2010 and $1.6bn expires in May 2013. Short-term borrowing requirements are met from drawings under bilateral bank facilities.

The Syndicated Facility contains two financial covenants; interest cover and net debt divided by earnings before interest, tax, depreciation and amortisation (EBITDA). Net debt is calculated as total borrowings less cash and cash equivalents. 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 in the near future.

Notes to the Group financial statements continued

21 Financial risk management policies continued

At the year end, the Group had surplus cash of $82m 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 exposure

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.

Notwithstanding that counterparties must have an A credit rating or better, during periods of significant financial market turmoil, counterparty exposure limits are significantly reduced and counterparty credit exposure reviews are broadened to include the relative placing of credit default swap pricings.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In respect of credit risk arising from financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern. The capital structure consists of net debt, issued share capital and reserves. The structure is managed to minimise the Group's cost of capital, to provide ongoing returns to shareholders and to service debt obligations, whilst maintaining maximum operational flexibility. Surplus cash is either reinvested in the business, used to repay debt or returned to shareholders. The Group maintains a conservative level of debt. The level of debt is monitored on the basis of a cash flow leverage ratio, which is net debt divided by EBITDA.

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 net borrowings in major currencies. At 31 December 2008, the Group held interest rate swaps (swapping floating for fixed) with notional principals of USD250m, GBP75m and EUR75m (2007 USD100m, GBP150m and EUR75m). The Group also held forward-starting interest rate swaps with notional principals of USD100m, GBP75m and EUR75m (2007 GBP150m and EUR75m). These swaps will replace current swaps with the same notional principals when they mature in 2009. The interest rate swaps are designated as cash flow hedges of borrowings under the Syndicated Facility and they are held on the balance sheet at fair value in other financial assets and other payables.

Changes in the fair value of cash flow hedges 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. No ineffectiveness was recognised during the current or prior year.

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 by taking out forward exchange contracts. The designated risk is the spot foreign exchange risk. Forward contracts are held at fair value on the balance sheet as other financial assets and other payables.

Hedge of net investment in foreign operations

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.

Hedge effectiveness is measured at calendar quarter ends. 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. No ineffectiveness was recognised on net investment hedges during the current or prior year.

At 31 December 2008, the Group held foreign exchange derivatives with a principal of $nil (2007 $12m) and a fair value of $nil (2007 $nil). The maximum amount of foreign exchange derivatives held during the year as net investment hedges and measured at calendar quarter ends had a principal of $70m (2007 $533m) and a fair value of $(4.2)m (2007 $3.1m).

22 Financial instruments

Liquidity risk

The following are the undiscounted contractual cash flows of financial liabilities, including interest payments:

	Less than 1 year $m	Between 1 and 2 years $m	Between 2 and 5 years $m	More than 5 years $m	Total $m
31 December 2008					
Secured bank loans	2	8	–	–	10
Finance lease obligations	16	16	48	3,380	3,460
Unsecured bank loans	1,156	–	–	–	1,156
Trade and other payables	737	101	113	277	1,228
Derivatives	6	4	3	–	13

	Less than 1 year $m	Between 1 and 2 years $m	Between 2 and 5 years $m	More than 5 years $m	Total $m
31 December 2007					
Secured bank loans	2	2	8	–	12
Finance lease obligations	16	16	48	3,396	3,476
Unsecured bank loans	1,570	–	–	–	1,570
Trade and other payables	781	127	100	110	1,118
Derivatives	12	–	–	–	12

Cash flows relating to unsecured bank loans are classified according to the maturity date of the loan drawdown rather than the facility maturity date.

Credit risk

The carrying amount of financial assets represents the maximum exposure to credit risk.

	2008 $m	2007 $m
Equity securities available-for-sale	70	93
Loans and receivables:		
Cash and cash equivalents	82	105
Other financial assets	92	113
Trade and other receivables, excluding prepayments	367	421
	611	732

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:

			Repricing analysis				
	Effective interest rate %	Total carrying amount $m	Less than 6 months $m	Between 6 months and 1 year $m	Between 2 and 3 years $m	Between 3 and 4 years $m	More than 5 years $m
31 December 2008							
Cash and cash equivalents	0.0–2.8	(82)	(82)	–	–	–	–
Secured bank loans	6.1	7	7	–	–	–	–
Finance lease obligations*	9.7	202	–	–	–	–	202
Unsecured bank loans:							
Euro floating rate	3.4	224	224	–	–	–	–
– effect of euro interest rate swaps*	1.8	–	(105)	–	105	–	–
US dollar floating rate	1.5	687	687	–	–	–	–
– effect of US dollar interest rate swaps*	1.0	–	(250)	100	–	150	–
Sterling floating rate	2.8	152	152	–	–	–	–
– effect of sterling interest rate swaps*	3.9	–	(109)	109	–	–	–
HK dollar floating rate	2.9	83	83	–	–	–	–
Net debt		1,273	607	209	105	150	202

* These items bear interest at a fixed rate.

GROUP FINANCIAL STATEMENTS

Notes to the Group financial statements continued

22 Financial instruments continued

Interest rate risk continued

	Effective interest rate %	Total carrying amount $m	Repricing analysis Less than 6 months $m	Between 6 months and 1 year $m	Between 1 and 2 years $m	More than 5 years $m
31 December 2007						
Cash and cash equivalents	0.0-5.9	(105)	(105)	–	–	–
Secured bank loans	8.2	7	7	–	–	–
Finance lease obligations*	9.7	200	–	–	–	200
Unsecured bank loans:						
Euro floating rate	5.3	243	243	–	–	–
– effect of euro interest rate swaps*	(0.6)	–	(111)	–	111	–
US dollar floating rate	5.5	670	670	–	–	–
– effect of US dollar interest rate swaps*	(0.4)	–	(100)	100	–	–
Sterling floating rate	6.9	553	553	–	–	–
– effect of sterling interest rate swaps*	0.0	–	(151)	–	151	–
HK dollar floating rate	4.5	91	91	–	–	–
Net debt		1,659	1,097	100	262	200

* 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. The effect shown above is their impact on the debt's floating rate, for an amount equal to their notional principal (principal and maturity of swap is shown in the repricing analysis). The fair values of derivatives are recorded in other financial assets and other payables.

Trade and other receivables and trade and other payables are not included above as they are not interest bearing.

Fair values

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

	Note	2008 Carrying value $m	2008 Fair value $m	2007 Carrying value $m	2007 Fair value $m
Financial assets					
Equity securities available-for-sale	15	**70**	**70**	93	93
Loans and receivables:					
Cash and cash equivalents	18	**82**	**82**	105	105
Other financial assets	15	**92**	**92**	113	113
Trade and other receivables, excluding prepayments	17	**367**	**367**	421	421
Financial liabilities					
Borrowings, excluding finance lease obligations	20	**(1,153)**	**(1,153)**	(1,564)	(1,564)
Finance lease obligations	20	**(202)**	**(168)**	(200)	(250)
Trade and other payables, excluding derivatives	19	**(1,128)**	**(1,128)**	(1,060)	(1,060)
Derivatives	19	**(10)**	**(10)**	(3)	(3)

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 obligations, approximates book value as interest rates reset to market rates on a frequent basis. The fair value of the finance lease obligation is calculated by discounting future cash flows at prevailing interest rates. The fair value of trade and other receivables and trade and other payables approximates to their carrying value, including the future redemption liability of the Group's loyalty programme.

23 Net debt

	2008 $m	2007 $m
Cash and cash equivalents	82	105
Loans and other borrowings – current	(21)	(16)
– non-current	(1,334)	(1,748)
Net debt	(1,273)	(1,659)
Movement in net debt		
Net increase/(decrease) in cash and cash equivalents	25	(237)
Add back cash flows in respect of other components of net debt:		
Decrease/(increase) in borrowings	316	(1,108)
Decrease/(increase) in net debt arising from cash flows	341	(1,345)
Non-cash movements:		
Finance lease liability	(2)	(18)
Exchange and other adjustments	47	(33)
Decrease/(increase) in net debt	386	(1,396)
Net debt at beginning of the year	(1,659)	(263)
Net debt at end of the year	(1,273)	(1,659)

24 Retirement 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, which is funded and HM Revenue & Customs registered, covers approximately 460 (2007 440) employees, of which 170 (2007 200) are in the defined benefit section which provides pensions based on final salaries and 290 (2007 240) are in the defined contribution section. The defined benefit section of the plan closed to new entrants during 2002 with new members provided with defined contribution arrangements. The assets of the plan are held in self-administered trust funds separate from the Group's assets. In addition, there are unfunded UK pension arrangements for certain members affected by the lifetime allowance. The Group also maintains the following US-based defined benefit plans; the funded InterContinental Hotels Pension Plan, unfunded InterContinental Hotels non-qualified pension plans and post-employment benefits schemes. These plans are now closed to new members. The Group also 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, these schemes.

The amounts recognised in the Group income statement in respect of the defined benefit plans are:

	Pension plans UK		Pension plans US and other		Post-employment benefits		Total	
	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Recognised in administrative expenses								
Current service cost	9	10	1	–	–	–	10	10
Interest cost on benefit obligation	30	30	10	10	1	1	41	41
Expected return on plan assets	(32)	(34)	(11)	(9)	–	–	(43)	(43)
	7	6	–	1	1	1	8	8

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

	Pension plans UK		Pension plans US and other		Post-employment benefits		Total	
	2008 $m	2007 restated* $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 restated* $m
Actual return on plan assets	(25)	28	(27)	9	–	–	(52)	37
Less: expected return on plan assets	(32)	(34)	(11)	(9)	–	–	(43)	(43)
	(57)	(6)	(38)	–	–	–	(95)	(6)
Other actuarial gains and losses	55	31	3	–	1	–	59	31
Total actuarial gains and losses	(2)	25	(35)	–	1	–	(36)	25
Asset restriction**	(14)	(17)	–	–	–	–	(14)	(17)
	(16)	8	(35)	–	1	–	(50)	8

* Restated for IFRIC 14 (see page 56).

** Relates to tax that would be deducted at source in respect of a refund of the surplus.

GROUP FINANCIAL STATEMENTS

Notes to the Group financial statements continued

24 Retirement benefits continued

The assets and liabilities of the schemes and the amounts recognised in the Group balance sheet are:

	Pension plans UK 2008 $m	Pension plans UK 2007 restated* $m	Pension plans US and other 2008 $m	Pension plans US and other 2007 $m	Post-employment benefits 2008 $m	Post-employment benefits 2007 $m	Total 2008 $m	Total 2007 restated* $m
Schemes in surplus								
Fair value of plan assets	**437**	611	**16**	15	**–**	–	**453**	626
Present value of benefit obligations	**(377)**	(550)	**(13)**	(10)	**–**	–	**(390)**	(560)
Surplus in schemes	**60**	61	**3**	5	**–**	–	**63**	66
Asset restriction**	**(23)**	(17)	**–**	–	**–**	–	**(23)**	(17)
Retirement benefit assets	**37**	44	**3**	5	**–**	–	**40**	49
Schemes in deficit								
Fair value of plan assets	**–**	–	**96**	129	**–**	–	**96**	129
Present value of benefit obligations	**(34)**	(47)	**(172)**	(174)	**(19)**	(20)	**(225)**	(241)
Retirement benefit obligations	**(34)**	(47)	**(76)**	(45)	**(19)**	(20)	**(129)**	(112)
Total fair value of plan assets	**437**	611	**112**	144	**–**	–	**549**	755
Total present value of benefit obligations	**(411)**	(597)	**(185)**	(184)	**(19)**	(20)	**(615)**	(801)

* Restated for IFRIC 14 (see page 56).

** Relates to tax that would be deducted at source in respect of a refund of the surplus.

The 'US and other' surplus of $3m relates to a defined benefit pension scheme in Hong Kong. Included within the 'US and other' deficit is $1m relating to a defined benefit pension plan in the Netherlands.

Assumptions

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

	Pension plans UK 2008 %	Pension plans UK 2007 %	Pension plans US 2008 %	Pension plans US 2007 %	Post-employment benefits 2008 %	Post-employment benefits 2007 %
Wages and salaries increases	**4.5**	4.9	**–**	–	**4.0**	4.0
Pensions increases	**3.0**	3.4	**–**	–	**–**	–
Discount rate	**5.6**	5.5	**6.2**	5.8	**6.2**	5.8
Inflation rate	**3.0**	3.4	**–**	–	**–**	–
Healthcare cost trend rate assumed for next year					**9.5**	10.0
Ultimate rate that the cost trend rate trends to					**5.0**	5.0

Mortality is the most significant demographic assumption. In respect of the UK plans, the specific mortality rates used are in line with the PA92 medium cohort tables, with age rated down by one year, implying the following life expectancies at retirement. In the US, life expectancy is determined by reference to the RP-2000 healthy tables.

		Pension plans UK 2008 Years	Pension plans UK 2007 Years	Pension plans US 2008 Years	Pension plans US 2007 Years
Current pensioners at 65[a]	– male	**23**	23	**18**	18
	– female	**26**	26	**20**	20
Future pensioners at 65[b]	– male	**24**	24	**18**	18
	– female	**27**	27	**20**	20

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 2028.

The assumptions allow for expected increases in longevity.

24 Retirement benefits continued

Sensitivities

The value of plan assets is sensitive to market conditions, particularly equity values. Changes in assumptions used for determining retirement benefit costs and obligations may have a material impact on the income statement and the balance sheet. The main assumptions are the discount rate, the rate of inflation and the assumed mortality rate. The following table provides an estimate of the potential impact of each of these variables on the principal pension plans.

	UK		US	
	Higher/(lower) pension cost $m	Increase/(decrease) in liabilities $m	Higher/(lower) pension cost $m	Increase/(decrease) in liabilities $m
Discount rate – 0.25% decrease	0.6	21.7	–	4.8
– 0.25% increase	(0.4)	(20.5)	–	(4.6)
Inflation rate – 0.25% increase	1.3	20.4	–	–
– 0.25% decrease	(1.2)	(19.2)	–	–
Mortality rate – one year increase	0.6	7.9	–	6.1

In 2018, the healthcare cost trend rate reaches the assumed ultimate rate. A one percentage point increase/(decrease) in assumed healthcare costs trend rate would increase/(decrease) the accumulated post-employment benefit obligations as of 31 December 2008 by approximately $1.7m (2007 $1.9m) 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 $0.1m (2007 $0.1m).

	Pension plans				Post-employment benefits		Total	
	UK		US and other					
Movement in benefit obligation	**2008 $m**	2007 $m	**2008 $m**	2007 $m	**2008 $m**	2007 $m	**2008 $m**	2007 $m
Benefit obligation at beginning of year	**597**	585	**184**	175	**20**	20	**801**	780
Current service cost	**9**	10	**1**	–	**–**	–	**10**	10
Members' contributions	**1**	1	**–**	–	**–**	–	**1**	1
Interest expense	**30**	30	**10**	10	**1**	1	**41**	41
Benefits paid	**(12)**	(13)	**(12)**	(11)	**(1)**	(1)	**(25)**	(25)
Reclassification*	**–**	–	**5**	10	**–**	–	**5**	10
Actuarial gain arising in the year	**(55)**	(31)	**(3)**	–	**(1)**	–	**(59)**	(31)
Exchange adjustments	**(159)**	15	**–**	–	**–**	–	**(159)**	15
Benefit obligation at end of year	**411**	597	**185**	184	**19**	20	**615**	801
Comprising:								
Funded plans	**377**	550	**141**	139	**–**	–	**518**	689
Unfunded plans	**34**	47	**44**	45	**19**	20	**97**	112
	411	597	**185**	184	**19**	20	**615**	801

* Relates to the recognition of the gross assets and obligations of the Netherlands (2007 Hong Kong) pension scheme.

	Pension plans				Post-employment benefits		Total	
	UK		US and other					
Movement in plan assets	**2008 $m**	2007 $m	**2008 $m**	2007 $m	**2008 $m**	2007 $m	**2008 $m**	2007 $m
Fair value of plan assets at beginning of year	**611**	527	**144**	111	**–**	–	**755**	638
Company contributions	**30**	54	**3**	20	**1**	1	**34**	75
Members' contributions	**1**	1	**–**	–	**–**	–	**1**	1
Benefits paid	**(12)**	(13)	**(12)**	(11)	**(1)**	(1)	**(25)**	(25)
Reclassification*	**–**	–	**4**	15	**–**	–	**4**	15
Expected return on plan assets	**32**	34	**11**	9	**–**	–	**43**	43
Actuarial loss arising in the year	**(57)**	(6)	**(38)**	–	**–**	–	**(95)**	(6)
Exchange adjustments	**(168)**	14	**–**	–	**–**	–	**(168)**	14
Fair value of plan assets at end of year	**437**	611	**112**	144	**–**	–	**549**	755

* Relates to the recognition of the gross assets and obligations of the Netherlands (2007 Hong Kong) pension scheme.

The most recent actuarial valuation of the InterContinental Hotels UK Pension Plan was carried out as at 31 March 2006 and showed a deficit of £81m on a funding basis. Under the recovery plan agreed with the trustees, the Group aims to eliminate this deficit by March 2014 through additional Company contributions and projected investment returns. Of the agreed contributions of £40m, three payments of £10m have been made and the final commitment of £10m is being met through the funding of the enhanced pension transfer arrangements detailed below. The next actuarial valuation is due as at 31 March 2009. Company contributions are expected to be $14m in 2009.

Notes to the Group financial statements continued

24 Retirement benefits continued

The combined assets of the principal plans and expected rate of return are:

	2008 Long-term rate of return expected %	2008 Value $m	2007 Long-term rate of return expected %	2007 Value $m
UK pension plans				
Liability matching investment funds	**3.9**	**192**	–	–
Equities	**7.9**	**87**	7.9	219
Bonds	**3.9**	**140**	4.8	360
Other	**7.9**	**18**	7.9	32
Total market value of assets		**437**		611
US pension plans				
Equities	**9.5**	**37**	9.5	77
Fixed income	**5.5**	**55**	5.5	52
Total market value of assets		**92**		129

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. In conjunction with the Group, the trustees have recently conducted an asset-liability matching study and this has resulted in the adoption of a revised asset allocation strategy for the UK plan. This strategy, which was in the process of implementation at 31 December 2008, aims to have 61% of the plan's assets invested in liability matching assets and 39% in return seeking assets.

History of experience gains and losses

	2008 $m	2007 $m	2006 $m	2005 $m	2004 $m
UK pension plans					
Fair value of plan assets	**437**	611	527	431	907
Present value of benefit obligations	**(411)**	(597)	(585)	(473)	(1,158)
Surplus/(deficit) in the plans	**26**	14	(58)	(42)	(251)
Experience adjustments arising on plan liabilities	**55**	31	(22)	(122)	(109)
Experience adjustments arising on plan assets	**(57)**	(6)	13	86	26
US and other pension plans					
Fair value of plan assets	**112**	144	111	106	107
Present value of benefit obligations	**(185)**	(184)	(175)	(176)	(172)
Deficit in the plans	**(73)**	(40)	(64)	(70)	(65)
Experience adjustments arising on plan liabilities	**3**	–	–	(5)	(11)
Experience adjustments arising on plan assets	**(38)**	–	4	(2)	2
US post-employment benefits					
Present value of benefit obligations	**(19)**	(20)	(19)	(20)	(21)
Experience adjustments arising on plan liabilities	**1**	–	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 $150m (2007 $114m). The Group is unable to determine how much of the pension scheme deficit recognised on transition to IFRS of $298m 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.

Post balance sheet event

Subsequent to the year end, approval was given for the payment of enhanced pension transfers to those deferred members of the InterContinental Hotels UK Pension Plan who had accepted an offer to receive the enhancement either as a cash lump sum or as an additional transfer value to an alternative pension provider. The payments, comprising lump sum amounts of £5.8m and additional contributions of £4.2m, were made by the Company on 23 January 2009. The transfer values subsequently paid by the plan were £45m and the corresponding IAS 19 liability extinguished was £38m. The settlement loss arising, together with the lump sum payment and costs of arrangement, will be charged to the Group income statement as an exceptional item, estimated at $22m, in the first quarter of 2009.

25 Share-based payments

Annual Bonus Plan

The IHG Annual Bonus Plan 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 of up to half the deferred amount. The bonus and matching shares in the 2005 plan 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 and 2007 plans are released on the third anniversary of the award date. Under the 2006 and 2007 plans a percentage of the award (Board members – 100% (2006 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 immediately in cash, in which case it is not accounted for as a share-based payment. Under the terms of the 2008 plan, a fixed percentage of the bonus is awarded in the form of shares with no voluntary deferral and no matching shares. The awards in all of the plans are conditional on the participants remaining in the employment of a participating company. Participation in the Annual Bonus Plan 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 661,657 (2007 675,515) shares were awarded to participants.

Long Term Incentive Plan

The Long Term Incentive Plan 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. During the year, conditional rights over 5,060,509 (2007 3,538,535) 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 during 2008 and no options were granted in the year under the plan. The latest date that any options may be exercised is 4 April 2015.

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 2008 and no options were granted in the year under the plan. The latest date that any options could be exercised under the three-year plan was 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 2008 and at 31 December 2008 no options had been granted under the plan.

Former Six Continents Share Schemes

Under the terms of the separation of Six Continents PLC in 2003, holders of options under the Six Continents Executive Share Option Schemes were given the opportunity to exchange their Six Continents 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 308.5p to 593.3p. The exchanged options were immediately exercisable and are not subject to performance conditions. During 2008, 159,254 (2007 1,358,791) such options were exercised and 113,024 shares lapsed (2007 nil), leaving a total of 2,424,605 (2007 2,696,883) such options outstanding at prices ranging from 308.5p to 466.7p. The latest date that any options may be exercised is 3 October 2012.

Notes to the Group financial statements continued

25 Share-based payments continued

The Group recognised a cost of $47m (2007 $60m) in operating profit and $2m (2007 $nil) within exceptional administrative expenses 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 $2m (2007 $32m).

The following table sets forth awards and options granted during 2008. No awards were granted under the Executive Share Option Plan, Sharesave Plan or US Employee Stock Purchase Plan during the year.

	Annual Bonus Plan	Long Term Incentive Plan
Number of shares awarded in 2008	**661,657**	**5,060,509**

In 2008 and 2007, 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:

	Annual Bonus Plan	Long Term Incentive Plan
2008		
Valuation model	Binomial	Monte Carlo Simulation and Binomial
Weighted average share price	836.0p	865.0p
Expected dividend yield	3.33%	2.76%
Risk-free interest rate		4.78%
Volatility*		30%
Term (years)	3.0	3.0

	Annual Bonus Plan	Long Term Incentive Plan
2007		
Valuation model	Binomial	Monte Carlo Simulation and Binomial
Weighted average share price	1252.0p	1262.0p
Expected dividend yield	2.13%	2.13%
Risk-free interest rate		5.40%
Volatility*		19%
Term (years)	3.0	3.0

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

25 Share-based payments continued

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

	Annual Bonus Plan Number of shares thousands	Long Term Incentive Plan Number of shares thousands
Outstanding at 1 January 2007	1,001	11,325
Granted	675	3,539
Vested	(418)	(1,694)
Share capital consolidation	(68)	–
Lapsed or cancelled	(86)	(1,707)
Outstanding at 31 December 2007	1,104	11,463
Granted	662	5,061
Vested	(472)	(2,752)
Lapsed or cancelled	(5)	(2,619)
Outstanding at 31 December 2008	**1,289**	**11,153**
Fair value of awards granted during the year		
2008	**1,436.0¢**	**870.4¢**
2007	2,387.4¢	910.0¢
Weighted average remaining contract life (years)		
At 31 December 2008	**1.6**	**1.2**
At 31 December 2007	1.5	1.1

The above awards do not vest until the performance and service 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
Outstanding at 1 January 2007	165	420.5	420.5	14,079	308.5-619.8	482.2
Exercised	(101)	420.5	420.5	(5,568)	308.5-619.8	471.9
Lapsed or cancelled	(7)	420.5	420.5	(317)	438.0-619.8	526.8
Outstanding at 31 December 2007	57	420.5	420.5	8,194	308.5-619.8	487.4
Exercised	(3)	420.5	420.5	(353)	434.2-619.8	543.6
Lapsed or cancelled	(5)	420.5	420.5	(206)	349.1-593.2	431.3
Outstanding at 31 December 2008	**49**	**420.5**	**420.5**	**7,635**	**308.5-619.8**	**486.3**
Options exercisable						
At 31 December 2008	**–**	**–**	**–**	**7,635**	**308.5-619.8**	**486.3**
At 31 December 2007	–	–	–	6,583	308.5-619.8	455.0

Included within the options outstanding under the Executive Share Option Plan are options over 2,424,605 (2007 2,696,883, 2006 4,055,674) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options, relating to former Six Continents share schemes, 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 815.0p. The closing share price on 31 December 2008 was 562.0p and the range during the year was 447.5p to 865.0p per share.

Notes to the Group financial statements continued

25 Share-based payments continued

Summarised information about options outstanding at 31 December 2008 under the share option schemes is as follows:

	Options outstanding		
Range of exercise prices (pence)	Number outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence
Sharesave Plan			
420.5	49	0.3	420.5
Executive Share Option Plan			
308.5 to 349.1	526	1.3	347.6
422.8 to 494.2	5,574	4.3	462.7
619.8	1,535	6.3	619.8
	7,635	4.5	486.3

At 31 December 2008, the options outstanding under the Sharesave Plan are not exercisable; those under the Executive Share Option Plan are exercisable.

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 2007	233	180	(175)	(28)	33	(84)	159
Income statement	3	(8)	(6)	7	6	(60)	(58)
Statement of recognised income and expense	–	–	–	(11)	–	54	43
Exchange and other adjustments	12	3	(9)	–	3	1	10
At 31 December 2007	248	175	(190)	(32)	42	(89)	154
Income statement	(7)	–	13	18	(8)	(8)	8
Statement of recognised income and expense	–	–	–	(21)	–	2	(19)
Exchange and other adjustments	(15)	(33)	36	2	(6)	(6)	(22)
At 31 December 2008	**226**	**142**	**(141)**	**(33)**	**28**	**(101)**	**121**

	2008 $m	2007 restated* $m
Analysed as:		
Deferred tax payable	**117**	148
Liabilities classified as held for sale	**4**	6
At 31 December	**121**	154

* Restated for IFRIC 14 (see page 56).

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

Deferred gains on loan notes includes $55m (2007 $55m) which is expected to fall due for payment in 2011.

The deferred tax asset of $141m (2007 $190m) recognised in respect of losses includes $87m (2007 $120m) in respect of capital losses available to be utilised against the realisation of capital gains which are recognised as a deferred tax liability and $54m (2007 $70m) in respect of revenue tax losses. Revenue losses include $nil (2007 $7m) in respect of losses which arose during a period of hotel refurbishment and which are expected to be utilised against future operating profit.

26 Deferred tax payable continued

Tax losses with a net tax value of $553m (2007 $384m), including capital losses with a value of $160m (2007 $220m), have not been recognised. These losses may be carried forward indefinitely with the exception of $1m which expires after three years (2007 $1m which expires after four years). Deferred tax assets with a net tax value of $4m (2007 $9m) in respect of share-based payments, $13m (2007 $13m) in respect of employee benefits and $8m (2007 $27m) in respect of other items have not been recognised. These losses and other deferred tax assets have not been recognised as the Group does not anticipate being able to offset these against future profits or gains in order to realise any economic benefit in the foreseeable future. However, future benefits may arise depending on future profits arising or on the outcome of EU case law and legislative developments.

At 31 December 2008, the Group has not provided deferred tax in relation to temporary differences associated with post-acquisition undistributed earnings of subsidiaries. Quantifying the temporary differences is not practical. However, 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 2008, the authorised share capital was £160,050,000, comprising 1,175,000,000 ordinary shares of 13 29⁄47p each and one redeemable preference share of £50,000.

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.

	Note	Number of shares millions	$m
Allotted, called up and fully paid (ordinary shares)			
At 1 January 2007		356	80
Share capital consolidation	a	(57)	–
Issued under option schemes		4	1
Repurchased and cancelled under repurchase programmes	b	(8)	(2)
Exchange adjustments		–	2
At 31 December 2007		295	81
Repurchased and cancelled under repurchase programmes	b	(9)	(3)
Exchange adjustments		–	(21)
At 31 December 2008		**286**	**57**

a On 1 June 2007, shareholders approved a share capital consolidation on the basis of 47 new ordinary shares for every 56 existing ordinary shares. This provided for all the authorised ordinary shares of 11 3⁄7p each (whether issued or unissued) to be consolidated into new ordinary shares of 13 29⁄47p each. The share capital consolidation became effective on 4 June 2007.

b During 2004 and 2005, the Company undertook to return funds of up to £750m to shareholders by way of three consecutive £250m share repurchase programmes, the third of which was completed in the first half of 2007. In June 2007, a further £150m share repurchase programme commenced. During the year, 9,219,325 (2007 7,724,844) ordinary shares were repurchased and cancelled under the authorities granted by shareholders at an Extraordinary General Meeting held on 1 June 2007 and at the Annual General Meeting held on 30 May 2008.

The authority given to the Company at the Annual General Meeting on 30 May 2008 to purchase its own shares was still valid at 31 December 2008. A resolution to renew the authority will be put to shareholders at the Annual General Meeting on 29 May 2009.

Notes to the Group financial statements continued

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 2007	129	8	(33)	(2,914)	53	209	3,878	1,330
Total recognised income and expense for the year	–	–	–	–	(16)	24	477	485
Issue of ordinary shares	32	–	–	–	–	–	–	32
Repurchase of shares	(2)	–	–	–	–	–	(160)	(162)
Transfer to capital redemption reserve	–	2	–	–	–	–	(2)	–
Purchase of own shares by employee share trusts	–	–	(138)	–	–	–	–	(138)
Release of own shares by employee share trusts	–	–	89	–	–	–	(80)	9
Equity-settled share-based cost	–	–	–	–	–	–	60	60
Equity dividends paid	–	–	–	–	–	–	(1,524)	(1,524)
Exchange adjustments	4	–	(1)	(4)	1	–	–	–
At 31 December 2007	163	10	(83)	(2,918)	38	233	2,649	92
Total recognised income and expense for the year	–	–	–	–	(29)	(61)	236	146
Issue of ordinary shares	2	–	–	–	–	–	–	2
Repurchase of shares	(3)	–	–	–	–	–	(136)	(139)
Transfer to capital redemption reserve	–	3	–	–	–	–	(3)	–
Purchase of own shares by employee share trusts	–	–	(24)	–	–	–	–	(24)
Release of own shares by employee share trusts	–	–	39	–	–	–	(53)	(14)
Equity-settled share-based cost	–	–	–	–	–	–	49	49
Equity dividends paid	–	–	–	–	–	–	(118)	(118)
Exchange adjustments	(44)	(3)	19	28	–	–	–	–
At 31 December 2008	**118**	**10**	**(49)**	**(2,890)**	**9**	**172**	**2,624**	**(6)**

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 13 29/47p shares. The share premium reserve has a balance of $61m (2007 $82m) representing the amount of proceeds received for shares in excess of their nominal value.

Capital redemption reserve
This reserve records the nominal value of equity share capital repurchased and cancelled.

Shares held by employee share trusts
Comprises $49.2m (2007 $82.6m) in respect of 3.0m (2007 3.4m) InterContinental Hotels Group PLC ordinary shares held by employee share trusts, with a market value at 31 December 2008 of $25m (2007 $60m).

Other reserves
Comprises the merger and revaluation reserves previously recognised under UK GAAP, together with the reserve arising as a consequence of the Group's capital reorganisation in June 2005. Following the change in presentational currency to the US dollar (see page 56), this reserve also includes exchange differences arising on the retranslation to period-end exchange rates of equity share capital, the capital redemption reserve and shares held by employee share trusts.

Unrealised gains and losses reserve
This reserve records movements to fair value of available-for-sale financial assets 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 2008 was a $10m liability (2007 $3m liability).

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 $nil as permitted by IFRS 1.

During the year ended 31 December 2008, the impact of hedging net investments in foreign operations was to reduce the amount recorded in the currency translation reserve by $96m (2007 $14m). The fair value of derivative instruments designated as hedges of net investments in foreign operations outstanding at 31 December 2008 was $nil (2007 $nil).

29 Minority equity interest

	2008 $m	2007 $m
At 1 January	6	16
Disposal of hotels (note 11)	–	(12)
Exchange and other adjustments	1	2
At 31 December	7	6

30 Operating leases

During the year ended 31 December 2008, $61m (2007 $64m) was recognised as an expense in the Group income statement in respect of operating leases, net of amounts borne by the system funds.

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

	2008 $m	2007 $m
Due within one year	56	58
One to two years	50	38
Two to three years	47	32
Three to four years	40	30
Four to five years	33	22
More than five years	322	218
	548	398

Included above, are commitments of $11m (2007 $9m) which will be borne by the system funds.

The average remaining term of these leases, which generally contain renewal options, is approximately 18 years (2007 17 years). No material restrictions or guarantees exist in the Group's lease obligations.

31 Capital and other commitments

	2008 $m	2007 $m
Contracts placed for expenditure on property, plant and equipment not provided for in the Group financial statements	40	20

On 24 October 2007, the Group announced a worldwide relaunch of its Holiday Inn brand family. In support of this relaunch, IHG will make a non-recurring revenue investment of $60m which will be charged to the Group income statement as an exceptional item. $35m has been charged in 2008.

32 Contingencies

	2008 $m	2007 $m
Contingent liabilities not provided for in the Group financial statements relating to guarantees	12	10

In limited cases, the Group may provide performance guarantees to third-party owners to secure management contracts. The maximum exposure under such guarantees is $249m (2007 $243m). 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 material 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 material financial loss to the Group.

Notes to the Group financial statements continued

33 Related party disclosures

Key management personnel comprises the Board and Executive Committee.

Total compensation of key management personnel	2008 $m	2007 $m
Short-term employment benefits	18.4	18.9
Post-employment benefits	0.7	0.9
Equity compensation benefits	12.8	18.2
	31.9	38.0

There were no transactions with key management personnel during the year ended 31 December 2008 or the previous year.

34 Principal operating subsidiary undertakings

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

Six Continents Limited[a]

Hotel Inter-Continental London Limited[a]

Six Continents Hotels, Inc.[b]

Inter-Continental Hotels Corporation[b]

Barclay Operating Corporation[b]

InterContinental Hotels Group Resources, Inc.[b]

InterContinental Hong Kong Limited[c]

Société Nouvelle du Grand Hotel SA[d]

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

a Incorporated in Great Britain and registered in England and Wales.

b Incorporated in the United States.

c Incorporated in Hong Kong.

d Incorporated in France.

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 2008.

Parent company financial statements

Parent company balance sheet

31 December 2008	Note	2008 £m	2007 restated* £m
Fixed assets			
Investments	3	2,878	2,851
Current assets			
Debtors	4	156	207
Creditors: amounts falling due within one year	5	(2,526)	(2,631)
Net current liabilities		(2,370)	(2,424)
Net assets		508	427
Capital and reserves			
Called up share capital	6	39	40
Share premium account	7	42	41
Capital redemption reserve	7	6	5
Share-based payment reserve	7	111	84
Profit and loss account	7	310	257
Equity shareholders' funds		508	427

* Restated following the adoption of UITF 44 (note 1).

Signed on behalf of the Board

Richard Solomons
16 February 2009

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 £186m (2007 £111m).

Notes on pages 97 to 99 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.

Change in accounting policy
The Company has adopted Urgent Issues Task Force 44 'FRS 20 – Group and Treasury Share Transactions' (UITF 44) for the first time in these financial statements. As a result, the Company has recorded an increase in its investments in subsidiaries (capital contribution) equal to the share-based payment charges recognised by its subsidiaries in accordance with Financial Reporting Standard 20 '(IFRS 2) Share-based payment' (FRS 20), with a corresponding credit to equity (share-based payments reserve). Prior years have been restated, resulting in an increase to investments and equity of £84m at 1 January 2008. The Company considers this treatment to be consistent with the underlying principles of UITF 44.

Fixed asset investments
Fixed asset investments are stated at cost plus share-based payments capital contributions less any provision for impairment.

Financial risk management policies
Financial risk management policies are set out in note 21 of the Group financial statements on pages 79 and 80.

Capital risk management
The Group's capital risk management policy is set out in note 21 of the Group financial statements on page 80.

2 Employees and Directors

	2008	2007
Average number of employees (Non-Executive Directors)	7	7

	2008 £m	2007 £m
Staff costs	1	1

Detailed information on the emoluments, pensions, option holdings and shareholdings for each Director is shown in the Remuneration Report on pages 40 to 48.

3 Investments

	£m
At 1 January 2008 as previously reported	2,767
Impact of adopting UITF 44 (note 1)	84
At 1 January 2008 as restated	2,851
Share-based payments capital contribution	27
At 31 December 2008	**2,878**

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 34 of the Group financial statements.

4 Debtors

	2008 £m	2007 £m
Amounts due from subsidiary undertakings	148	166
Corporate taxation	8	41
	156	207

Notes to the parent company financial statements continued

5 Creditors: amounts falling due within one year

	2008 £m	2007 £m
Amounts due to subsidiary undertakings	**2,526**	2,631

6 Share capital

	Note	Number of shares millions	£m
Authorised (ordinary shares)			
At 1 January 2008 and 31 December 2008 (1,175,000,000 shares of 13 29/47p each)		1,175	160
Authorised (preference shares)			
At 1 January 2008 and 31 December 2008:			
One redeemable preference share (£50,000)		–	–
Allotted, called up and fully paid (ordinary shares of 13 29/47p each)			
At 31 December 2007		295	40
Repurchase of shares	a	(9)	(1)
At 31 December 2008		**286**	**39**

a During the year, 9,219,325 (2007 7,724,844) ordinary shares were repurchased and cancelled under the authorities granted by shareholders at an Extraordinary General Meeting held on 1 June 2007 and at the Annual General Meeting held on 30 May 2008.

The aggregate consideration in respect of ordinary shares issued under option schemes during the year was £1m (2007 £16m).

	Thousands
Options to subscribe for ordinary shares	
At 31 December 2007	8,251
Exercised*	(356)
Lapsed or cancelled	(211)
At 31 December 2008	**7,684**
Option exercise price per ordinary share (pence)	308.5-619.8
Final exercise date	4 April 2015

* The weighted average option price was 543.6p for shares exercised under the Executive Share Option Plan and 420.5p for shares exercised under the Sharesave Plan.

The authority given to the Company at the Annual General Meeting on 30 May 2008 to purchase its own shares was still valid at 31 December 2008. A resolution to renew the authority will be put to shareholders at the Annual General Meeting on 29 May 2009.

7 Movements in reserves

	Share premium account £m	Capital redemption reserve £m	Share-based payments reserve £m	Profit and loss account £m
At 1 January as previously reported	41	5	–	257
Impact of adopting UITF 44 (note 1)	–	–	84	–
At 1 January 2008 as restated	41	5	84	257
Premium on allotment of ordinary shares	1	–	–	–
Repurchase of shares	–	–	–	(70)
Transfer to capital redemption reserve	–	1	–	(1)
Profit after tax	–	–	–	186
Share-based payments capital contribution	–	–	27	–
Dividends	–	–	–	(62)
At 31 December 2008	**42**	**6**	**111**	**310**

8 Reconciliation of movements in shareholders' funds

	2008 £m	2007 restated* £m
Earnings available for shareholders	186	111
Dividends	(62)	(773)
	124	(662)
Issue of ordinary shares	1	16
Repurchase of ordinary shares	(71)	(81)
Share-based payments capital contribution	27	30
Net movement in shareholders' funds	81	(697)
Opening shareholders' funds as previously reported	343	1,070
Impact of adopting UITF 44 (note 1)	84	54
Opening shareholders' funds as restated	427	1,124
Closing shareholders' funds	**508**	427

* Restated following the adoption of UITF 44 (note1).

9 Profit and dividends

Profit on ordinary activities after tax amounts to £186m (2007 £111m).

A final dividend, declared in the previous year, of 14.9p (2007 13.3p) per share was paid during the year, amounting to £44m (2007 £47m). A special interim dividend was paid in 2007 of 200.0p per share, amounting to £709m. An interim dividend of 6.4p (2007 5.7p) per share was paid during the year, amounting to £18m (2007 £17m). A final dividend of 20.2p (2007 14.9p) per share, amounting to £58m (2007 £44m), is proposed for approval at the Annual General Meeting. The proposed final dividend is payable on shares in issue at 27 March 2009.

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

10 Contingencies

Contingent liabilities of £1,345m (2007 £840m) in respect of guarantees of the liabilities of subsidiaries have not been provided for in the financial statements.

Statement of Directors' responsibilities

In relation to the 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 auditor 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 2008 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 2008.

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 that is cross referred from the Business Review, Directors 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, Business Review, Directors' Report, Corporate Governance, 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 2008;
- 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.
16 February 2009

Useful information

In this section we present a glossary of terms used in the Annual Report and Financial Statements 2008 and some analyses of our share ownership at the end of 2008.

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.

Glossary

Adjusted excluding the effect of exceptional items, gain/loss on disposal of assets and any relevant tax.

Average daily rate room revenue divided by the number of room nights sold. Also known as average room rate.

Basic earnings per share profit available for IHG equity holders divided by the weighted average number of ordinary shares in issue during the year.

Capital expenditure cash expended on purchases of property, plant and equipment and purchases of intangible assets, associate investments and other financial assets.

Cash-generating unit a portfolio of similar assets that are subject to the same economic and commercial influences.

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

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

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

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

Derivatives a financial instrument used to reduce risk, the price of which is derived from an underlying asset, index or 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 coordinated plan to dispose of a separate line of business or geographical area of operations.

Exceptional items items which are disclosed separately because of their size or nature.

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 (eg Staybridge Suites, Candlewood Suites).

Franchisee operator who uses a brand under licence from the brand owner (eg IHG).

Franchisor brand owner (eg IHG) who licenses brands for use by operators.

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.

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

IFRS International Financial Reporting Standards.

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

Management contract a contract to operate a hotel on behalf of the hotel owner.

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

Midscale hotel a hotel in the three/four star category (eg Holiday Inn, Holiday Inn Express).

Net debt borrowings less cash and cash equivalents.

Occupancy rate rooms occupied by hotel guests, expressed as a percentage of rooms that are available.

Operating profit margin operating profit before exceptional operating items expressed as a percentage of revenue.

Pipeline hotels/rooms that will enter the Group's system at a future date. A new property only enters the pipeline once a contract has been signed and the appropriate fees paid. In rare circumstances, a hotel will not open for reasons such as the financing being withdrawn.

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).

Room count number of rooms owned, leased, managed or franchised by IHG.

Room revenue revenue generated from the sale of room nights.

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

Subsidiary undertaking a company in which the Group holds an equity stake and over which it exercises control.

System size the number of hotels/rooms owned, leased, managed or franchised by IHG.

Technology fees charges to hotels under management and franchise agreements for the use of IHG's proprietory reservation system.

Total gross revenue total room revenue from franchised hotels and total hotel revenue from managed, owned and leased hotels.

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 (eg InterContinental, Crowne Plaza).

UK GAAP United Kingdom generally accepted accounting practice.

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 2008 by type

	Number of shareholders	Percentage of total shareholders	Ordinary shares	Percentage of issued share capital
Category of holdings				
Private individuals	56,436	93.70	20,840,141	7.30
Nominee companies	3,326	5.52	260,509,068	91.23
Limited and public limited companies	318	0.53	818,661	0.29
Other corporate bodies	130	0.23	2,828,885	0.99
Pension funds, insurance companies and banks	15	0.02	555,438	0.19
Total	**60,225**	**100**	**285,552,193**	**100**

Shareholder profile as at 31 December 2008 by size

	Number of shareholders	Percentage of total shareholders	Ordinary shares	Percentage of issued share capital
Range of holdings				
1 – 199	36,237	60.17	2,409,152	0.84
200 – 499	12,528	20.80	4,010,766	1.41
500 – 999	6,218	10.33	4,351,495	1.52
1,000 – 4,999	4,355	7.23	8,105,507	2.84
5,000 -9,999	279	0.46	1,874,264	0.66
10,000 – 49,999	325	0.54	7,290,186	2.55
50,000 – 99,999	80	0.13	5,738,133	2.01
100,000 – 499,999	132	0.22	30,929,828	10.83
500,000 – 999,999	27	0.05	19,282,336	6.75
1,000,000 – highest	44	0.07	201,560,526	70.59
Total	**60,225**	**100**	**285,552,193**	**100**

Shareholder profile as at 31 December 2008 by geographical location

	Percentage of issued share capital[1]
Country/Jurisdiction	
England and Wales	60.51
Rest of Europe	7.00
United Arab Emirates	5.43
USA (including ADRs)	22.20
Rest of World	4.86
Total	**100**

1 The geographical distribution presented is based on an analysis of shareholdings (by manager) of 150,000 or above where geographical ownership is known. These holdings account for 78.95% of total issued share capital.

Forward-looking statements

Both the Annual Report and Financial Statements 2008 and the Annual Review and Summary Financial Statement 2008 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 PLC with respect thereto. Such statements include, but are not limited to, statements made in the Chairman's statement and in 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 organisational capability to manage changes in key personnel and senior management; events that adversely impact domestic or international travel; the risks involved in the Group's reliance upon its proprietary reservations system and increased competition in reservations infrastructure; the risks in relation to technology and systems; the risks of the hotel industry supply and demand cycle; the possible lack of selected development opportunities; the risks related to corporate responsibility; the risk of litigation; the risks associated with the Group's ability to maintain adequate insurance; the risks associated with the Group's ability to borrow and satisfy debt covenants; compliance with data privacy regulations; the risks related to information security; 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 Business Review of the Annual Report and Financial Statements 2008 and also in any Annual Report of InterContinental Hotels Group PLC on Form 20-F.

Investor information

Registrar

For enquiries concerning individual shareholdings and for information on a range of shareholder services please contact the Company's Registrar, Equiniti (details shown on page 105).

Website and electronic communication

Following changes introduced by the Companies Act 2006, as part of the Company's commitment to reducing the cost and environmental impact of producing and distributing printed documents in very large quantities, IHG's Annual Report and Annual Review have been made available to the majority of shareholders through the Company's website www.ihg.com/investors under financial library.

Shareholders may appoint electronically a proxy to vote on their behalf on any poll that may be held at the forthcoming Annual General Meeting. 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) for shareholders to purchase additional IHG shares with their cash dividends. For further information about the DRIP, please contact our Registrar, Equiniti (details shown on page 105).

Shareholder security

Many companies have become aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high-risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'.

More detailed information on this or similar activity can be found on the Financial Services Authority website www.moneymadeclear.fsa.gov.uk

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

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 December 2008, for UK Capital Gains Tax purposes, may be found on the Company's website at www.ihg.com/cgt

Corporate Responsibility Report

IHG has published an online Corporate Responsibility Report for 2008 covering progress on a range of environmental, social and community issues. This is available on our corporate website and can be downloaded directly at www.ihg.com/responsibility

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'.

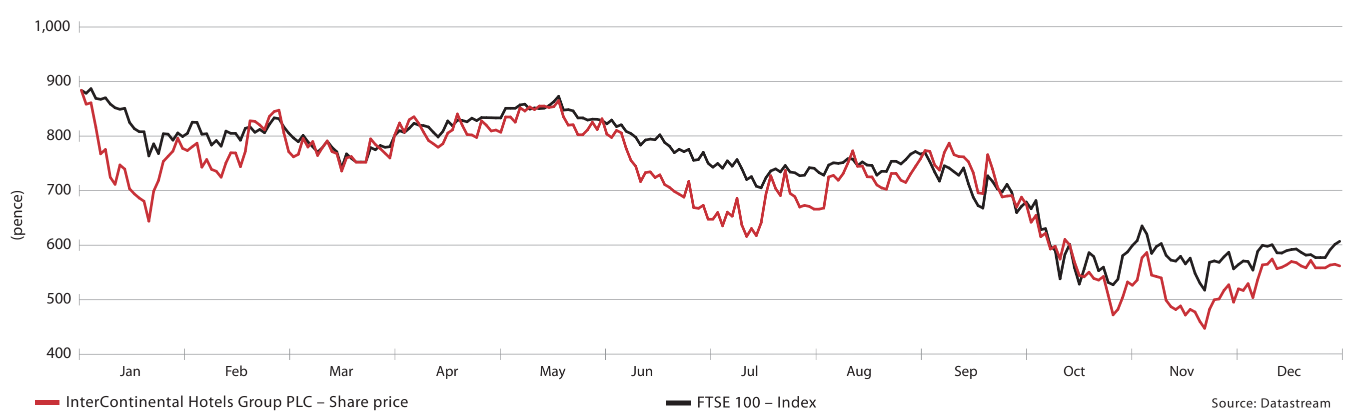
Each ADR represents one ordinary share. All enquiries regarding ADR holder accounts and payment of dividends should be directed to JPMorgan Chase & Co., the authorised depositary bank (details shown on page 105).

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/investors under shareholder centre/shares and dividends/adr or by visiting the SEC's website at www.sec.gov/edgar.shtml

Share price information

Share price 2008: InterContinental Hotels Group PLC v FTSE 100



Further details of IHG's share price may be found on the Company's website at www.ihg.com/investors under share price.

Financial calendar

		2008
Payment of interim dividend of 6.4p per share (12.2 cents per ADR)		3 October
Financial year end		31 December
		2009
Preliminary announcement of annual results		17 February
Final dividend of 20.2p per share (29.2 cents per ADR):	Ex-dividend date Record date	25 March 27 March
Announcement of first quarter results		12 May
Annual General Meeting		29 May
Final dividend of 20.2p per share (29.2 cents per ADR):	Payment date	5 June
Announcement of interim results		11 August
Interim dividend:	Payment date	October
Announcement of third quarter results		10 November
Financial year end		31 December
		2010
Preliminary announcement of annual results		February

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UB9 5HR

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Fax +44 (0) 1895 512 101

www.ihg.com

For general information about the Group's business please contact the Corporate Affairs department at the above address. For all other enquiries please contact the Company Secretariat at the above address or email companysecretariat@ihg.com

Registrar

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone 0871 384 2132*† (UK callers)
+44 121 415 7034 (non-UK callers)

www.shareview.co.uk

*For those with hearing difficulties a text phone is available on 0871 384 2255† for UK callers with compatible equipment.

†Telephone calls to these numbers are currently charged at 8p per minute if using a BT landline. Other telephone service providers may charge different rates.

ADR depositary

JPMorgan Chase & Co
PO Box 64504
St. Paul
MN 55164-0504
USA

Telephone (800) 990 1135 (US callers – toll free)
+1 651 453 2128 (non-US callers)

Email:
jpmorgan.adr@wellsfargo.com
www.adr.com

Stockbrokers

JPMorgan Cazenove Limited
Bank of America Merrill Lynch

Auditors

Ernst & Young LLP

Investment bankers

Citi
JPMorgan Cazenove Limited
Bank of America Merrill Lynch

Solicitors

Linklaters LLP

For further investor information visit

www.ihg.com/investors

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