InterContinental Hotels Group

Great hotels guests love

IHG Annual Report and Financial Statements 2009

IHG in brief

Every great company has a clear understanding of what it's trying to do. IHG's core purpose is creating Great Hotels Guests Love with everything we do focused on the guest, or supporting the people who serve our guests.

We operate hotels in three different ways – as a franchisor, a manager and on an owned and leased basis.

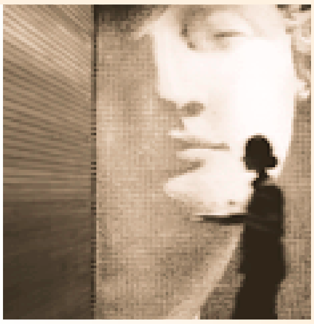
We operate seven leading hotel brands – InterContinental, Crowne Plaza, Hotel Indigo, Holiday Inn, Holiday Inn Express, Staybridge Suites and Candlewood Suites.

We manage the world's largest hotel loyalty programme, Priority Club Rewards, which has 48 million members worldwide.

We have more guest rooms in our system than any other hotel company in the world – almost 650,000 rooms in over 4,400 hotels in over 100 countries and territories.

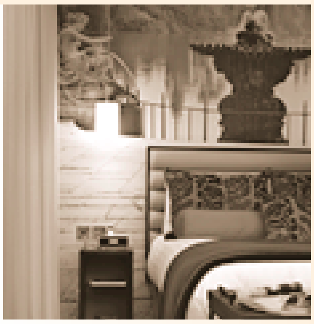
We are structured around three regions: The Americas; Europe, Middle East and Africa; and Asia Pacific.

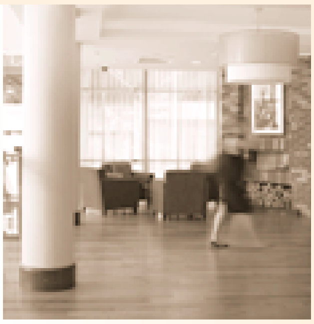
Great hotels guests love



Record number of hotels opened

439





Headlines

Record 439 hotels opened

Net room additions of 26,828 rooms

Total hotels open under IHG brands up 6% to 4,438 hotels

Signings of 52,891 rooms (345 hotels) with development pipeline now totalling 210,363 rooms (1,438 hotels)

Revenue per available room‡ down 14.7%

Total gross revenue† from all hotels in IHG system down 12% to $16.8bn

Revenue∞ down 19% to $1,538m°

Operating profit before exceptional items∞ down 34% to $363m°

Sustainable regional and central cost savings of $50m ($95m of total savings)

68% of total rooms' revenue booked through IHG's channels or by Priority Club Rewards members direct to hotel; up from 64% in 2008

6m new Priority Club Rewards members enrolled (48m members in total)

Total adjusted earnings per share down 15% to 102.8¢

Final dividend maintained at 29.2¢ (sterling equivalent of 18.7p)

‡ System room revenue divided by the number of room nights available (on a comparable RevPAR basis).

† Total room revenue from franchised hotels and total hotel revenue from managed, owned and leased hotels (not all attributable to IHG).

∞ Hotels previously accounted for as discontinued operations have been re-presented as continuing operations and the relevant comparatives restated.

° Includes one significant liquidated damages receipt in 2009 in EMEA totalling $3m and four in 2008 totalling $33m; $13m in The Americas, $16m in EMEA, $4m in Asia Pacific.

Crowne Plaza, Today Gurgaon, India

Chairman's statement

Dear Shareholder

Performance

Reflecting the challenging conditions across the global hotel industry, our revenue decreased 19 per cent to $1.5 billion, with operating profit before exceptional items of $363 million, down 34 per cent. Despite this, the robustness of our core franchise and management fee model has proved itself, with strong underlying margin performance.

Adjusted earnings per share decreased just 15 per cent from 120.9 cents to 102.8 cents due to a lower interest charge and substantially reduced tax rate. This was as a result of certain prior year tax contingencies, primarily as a result of the final resolution of various tax audits. We had a $373 million exceptional charge in the year. This included $197 million of non-cash impairments reflecting the ongoing poor trading environment; a $91 million onerous management contract provision in the US; $19 million in relation to the Holiday Inn relaunch; and $43 million of reorganisation costs.

The Board is recommending that the final dividend for 2009 is maintained at 29.2 cents per share, giving a full-year dividend of 41.4 cents per share, flat on 2008. This converts to a sterling full-year dividend of 26.0 pence, broadly flat compared with 2008.

Board

I am pleased to welcome Graham Allan to IHG as a Non-Executive Director. Graham joined the Board on 1 January 2010 and is the President of Yum! Restaurants International, a subsidiary of Yum! Brands, Inc., which operates quick service restaurant brands including KFC, Pizza Hut and Taco Bell in over 100 countries worldwide. Graham brings a wealth of brand management, marketing and franchising experience, which will be of significant benefit to IHG.

Financial position and shareholder returns

Our careful control over cash has enabled us to reduce our overall net debt position by $0.2 billion to $1.1 billion, an excellent achievement considering the challenging trading environment during the year. In December 2009, we issued a seven-year £250 million bond which was swapped into US dollars and used to reduce the term loan which matures in November 2010 from $500 million to $85 million. Last year we refinanced our $1.6 billion syndicated loan facility which matures in May 2013. In order to preserve cash and maintain the strength of our balance sheet, the remaining £30 million of the share buyback programme was deferred in 2008; consequently, no returns above normal dividends were made to shareholders in 2009. Total funds returned since March 2004 amount to more than £3.5 billion.

Outlook

2009 was a challenging year for the whole hotel market. We have taken decisive actions to minimise the impact on our business, having achieved a $50 million sustainable reduction in regional and central costs, representing a saving of over 15 per cent, whilst opening a record 439 hotels and driving forward with the Holiday Inn relaunch.

On behalf of the Board, I should like to thank everyone in IHG for their unstinting efforts in a difficult year and their commitment to the future success of our business. The trading environment will continue to be tough in 2010 but I remain confident that our global scale, fee-based business model, powerful system and proven management team position us well to benefit from the upturn when it comes.

David Webster
Chairman

"During 2009, strong management actions have helped to mitigate the impact of the difficult trading environment on IHG's results, enabling us to outperform the competition and deliver on our priorities."

David Webster
Chairman

Chief Executive's review

Our strategy is to be one of the very best companies in the world, delivering Great Hotels Guests Love

2009 proved to be one of the most challenging years on record, with double-digit declines in revenue per available room (RevPAR) leading to lower profits.

In a difficult market we outperformed the competition and delivered well on the key priorities we set at the beginning of the financial crisis.

Focus on efficiency

We exceeded our cost savings target for the year, reducing central and regional costs by $95 million of which $50 million is sustainable. We also delivered $25 million of sustainable cost savings in our franchised and managed businesses. In addition, we have taken similar actions to increase the efficiency of the system fund spending.

Support hotel performance

As the financial crisis took hold, we were able to harness the power of our global system to support performance in our hotels. Rooms revenue booked through our reservations channels or by Priority Club Rewards members direct to hotel, rose four percentage points on last year to 68 per cent. We also introduced a number of initiatives to help owners keep operating costs down.

Build quality distribution

During the year, we added a record 439 hotels to our system, over 80 per cent of which were 'new-build', and we signed 345 hotels into our development pipeline. This is a noteworthy achievement given the scarcity of financing and is a testament to the strength of our brands and the power of our system.

Our drive for quality continued with the removal of almost 30,000 rooms in the year. We made excellent progress with the Holiday Inn relaunch with over 50 per cent of the hotels now operating under the new standards. The consumer marketing campaign started over the summer and the relaunched hotels continue to show encouraging results.

The relationship we enjoy with our owners has been key to managing through this downturn and we continue to work side by side on our shared purpose of creating Great Hotels Guests Love.

The actions we have taken in 2009 build on IHG's transformation to an asset-light, fee-based, aligned business with the brand strength and scale to drive market share and operational efficiencies whatever the market conditions. Our resilience through this downturn demonstrates the robustness of this strategy. We will continue to focus hard on execution in 2010 to drive competitive advantage and deliver sustained value to our shareholders.

Andrew Cosslett
Chief Executive

"In a difficult year we've taken decisive actions to improve the efficiency of our business, significantly reducing costs while opening a record number of hotels and driving forward with the $1 billion Holiday Inn relaunch."

Andrew Cosslett
Chief Executive

Questions and Answers with the Chief Executive:

Q

What has been IHG's strategy to deal with the difficult economic climate and how successful has it been?

A Over the past few years, we've taken a number of strategic actions to become more efficient and effective and make better use of our global scale. The most important of these was the decision to focus on becoming a predominantly franchised and managed, fee-based business. This gives us a more predictable income stream, strong cash generation and allows us to continue to grow because new hotels are funded by third-party investment. Over the past 18 months, our continued growth in new rooms has helped offset some of the revenue lost from RevPAR declines.

Driving revenue into our hotels has been a priority and our 'system' is key to delivering this. Our system comprises our world class reservations centres, websites, global sales teams and Priority Club Rewards loyalty scheme and delivered 68 per cent of rooms revenue to our hotels in 2009.

Reducing our corporate and regional cost base was crucial to managing through the downturn. This was something on which we were already engaged, but in response to the economic climate we stepped up the pace of change. While we've been able to reduce costs by taking better advantage of our scale, we also had to make reductions in our numbers and this unfortunately impacted jobs. The action we took this year to reduce our costs, while difficult, allowed us to conserve cash and continue to invest in those things that drive guests to our hotels and revenues to our owners.

Finally, the great working relationship we enjoy with our owners, both directly and through the IAHI, our Owners' Association, has also been key. By working side by side with our hotel owners, we're able to focus on the guest experience and on delivering Great Hotels Guests Love.

Q

With owners looking for support to reduce costs, why is the Holiday Inn relaunch still a priority?

A We set about the relaunch of Holiday Inn in 2007 – and although no one could have predicted the economic circumstances we have since faced, we've pushed on with the $1 billion programme because we believe this is exactly the right time to be doing it.

The relaunch is re-setting people's perceptions of Holiday Inn. In their search for great value they're giving the brand another try and liking what they find. Guest satisfaction is up and owners are seeing RevPAR outperformance. These economic circumstances might seem like a great reason to shy away from making such big changes, but time will show that it is both a very opportune and very effective initiative for this, our biggest brand.

Q

Has it been difficult to retain loyal customers while guests have been so focused on price and value for money?

A Our most loyal customers – the 48 million members of our Priority Club Rewards programme – have been our most supportive. Not only do these guests stay with us more often, they spend more when they do.

A guest's loyalty can never be taken for granted – it is something that can take years to achieve and seconds to lose. So we have made sure we have continued to add benefits to the loyalty programme right through the downturn, and made membership of it even more worthwhile.

This year we enrolled six million new members into the programme – that's a significant number of people whose first choice will now be to stay in one of our hotels.

Q

How will IHG make the most of the upturn when it comes?

A During these tough economic times, we've taken decisive action both to strengthen the efficiency of our business and to keep on course with our growth strategy.

We continued to invest in our people, our systems and our brands, while forging even closer working relationships with our hotel owners and partners.

With momentum and a united, winning spirit inside the business, IHG is well placed to make the most of the upturn when it comes.

World class brands

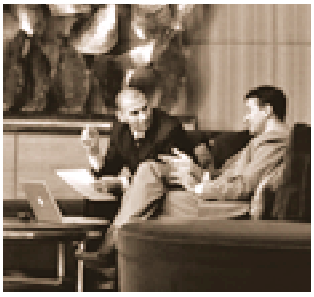
and our multi-award-winning loyalty programme, Priority Club Rewards

InterContinental Hotels & Resorts
In the know

Our well-travelled guests expect superior, understated service and outstanding facilities. We also share our knowledge and love of local culture, to give guests an authentic experience.

166 hotels
56,121 rooms

63 hotels (20,173 rooms) in development pipeline



Crowne Plaza
The Place To Meet

Simplified elegance, comfort and a first class 24-hour business service make Crowne Plaza the choice for discerning business and leisure travellers.

366 hotels
100,994 rooms

129 hotels (38,555 rooms) in development pipeline

Hotel Indigo
Refreshingly Local

Whether travelling for business or leisure, Hotel Indigo delivers the charm of a boutique hotel with the consistency and reliability of a big hotel company.

33 hotels
4,030 rooms

53 hotels (6,660 rooms) in development pipeline

Holiday Inn
Change is Happening

We've always been known for our friendly service, comfort and value. Now, with over half of our hotels relaunched around the world, business and leisure travellers are finding Holiday Inn offers even better quality and service.

1,319 hotels
240,568 rooms

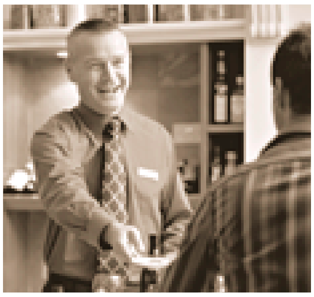
338 hotels (59,008 rooms) in development pipeline

Holiday Inn Express
Change is Happening

One of the fastest-growing hotel brands in the limited service category, Holiday Inn Express offers convenience and comfort at great value.

2,069 hotels
188,007 rooms

563 hotels (57,756 rooms) in development pipeline

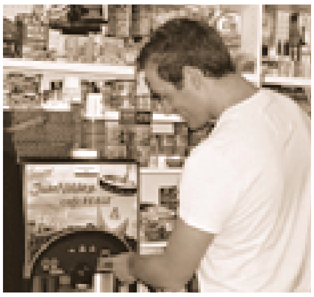


Staybridge Suites
Get Comfortable

Staybridge Suites is ideal for business and leisure travellers who want to stay for longer periods of time and enjoy the best of home and hotel.

182 hotels
19,885 rooms

123 hotels (13,360 rooms) in development pipeline



Candlewood Suites
Feel Free

Spacious studios and one-bedroom suites make Candlewood Suites ideal for longer-stay guests looking for convenience and comfort at a good value price.

254 hotels
25,283 rooms

169 hotels (14,851 rooms) in development pipeline

Priority Club Rewards
It's easier. Enjoy.

The world's first and largest hotel loyalty programme, Priority Club Rewards (PCR) offers members more ways to earn and redeem points than any other hotel scheme.

We have 48 million members – The world's largest hotel loyalty programme

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 set out our key performance indicators, describe the development and performance of the business during 2009, and provide a comprehensive review of our approach towards our employees, corporate responsibility and risk management throughout the Group.

InterContinental Bali Resort, Indonesia

Business review

This Business Review for the financial year ended 31 December 2009 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 economic conditions of the last year have had a significant impact on IHG and the wider hotel industry. We continue to monitor key trends and business fundamentals, such as revenue per available room (RevPAR) to ensure our strategy remains well suited to the developing environment and our capabilities, and we believe our business is resilient. Accordingly, our strategy remains unchanged. However, we see short-term risks in the pace of future openings and the recovery in consumer demand, particularly business travel.

The downturn continued to be severe in 2009, with a sharp decline in global industry RevPAR and bookings. Our industry has always been cyclical and there are signs that business and consumer confidence is returning and RevPAR is beginning a slow recovery. Historically as an industry, in previous cycles, we have experienced 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 difference in the recovery this time is likely to be slower increases in supply due to the ongoing finance environment remaining at more 'normal' levels compared with 2005 to 2008, and muted demand recovery as discretionary income growth and corporate profit growth are held back by, amongst other issues, tax increases and reduced access to credit. The Group's fee-based profit is partly protected from changes in hotel supply or demand due to its model of third-party ownership of hotels under IHG franchise and management contracts. IHG profit varies more with hotel revenue (demand) than it does with hotel profit performance. Accordingly, IHG's share price saw some significant recovery and stabilisation since the lows of last spring. Our share price increased by 59% in the 12 months to 31 December 2009 and those of our listed company competitors increased by an average 56% over the same period. 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 18 million rooms. This has grown at approximately 2% per annum over the last five years. Competitors in the market include other hotel companies, both large and small, and independently owned hotels.

The market remains fragmented, with an estimated eight 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 41% of the branded rooms, only 18% of total hotel rooms.

Geographically, the market is more concentrated with the top 20 countries accounting for more than 80% of global hotel rooms. Within this, the United States (US) is dominant (approximately 25% of global hotel rooms) with China, Spain 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 (GDP), 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 airline capacity grows and affordability improves, accentuated in some regions by the strength of the market positions of low-cost airlines;
- globalisation of trade and tourism;
- increase in affluence and freedom to travel within emerging markets, such as China and Brazil; and
- increase in the preference for branded hotels amongst consumers.

Branded v unbranded

2009 branded hotel rooms
as a percentage of the total market

US	69%
Europe, Middle East and Africa (EMEA)	34%
Asia Pacific (APAC)	29%

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

Within the global market, just under half of hotel rooms are 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 3.8% compound annual growth rate (CAGR), 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 franchising or managing 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 reservations channels. Furthermore, hotel ownership is increasingly being separated from hotel operations, encouraging hotel owners to use third parties such as IHG to manage their hotels.

Other factors

Potential negative trends impacting hotel industry growth include the possibility of increased terrorism and increased security measures, environmental considerations and economic factors such as the longevity of the downturn.

Our business model

IHG's future growth will be achieved predominantly through franchising and managing rather than owning hotels. Approximately 641,000 rooms operating under Group brands are franchised or managed and 5,800 rooms are owned and leased.

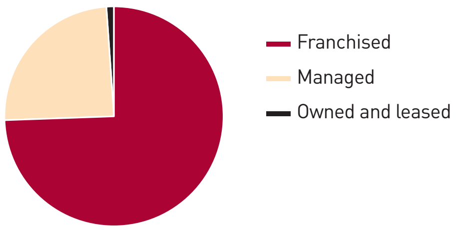
The franchised and managed fee-based model is attractive because it enables the Group to achieve its goals with limited capital investment at an accelerated pace. A further advantage is the reduced volatility of the fee-based income stream, compared with ownership of assets.

A key characteristic of the franchised and managed business is that it generates more cash than is required for investment in the business, with a high return on capital employed. Currently 87% of continuing earnings before regional and central overheads, exceptional items, interest and tax is derived from franchised and managed operations.

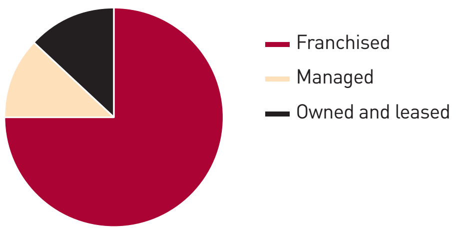
The key features of our business model are represented in the following table and charts.

	Franchised	Managed	Owned and leased
Brand	IHG	IHG	IHG
Marketing and distribution	IHG	IHG	IHG
Staff	Third party	IHG usually supplies general manager as a minimum	IHG
Ownership	Third party	Third party	IHG
IHG capital	None	Low/none	High
IHG revenue	Fee % of rooms revenue	Fee % of total revenue plus % of profit	All revenue
Total hotels	3,799	622	17

IHG global room count by ownership type at 31 December 2009



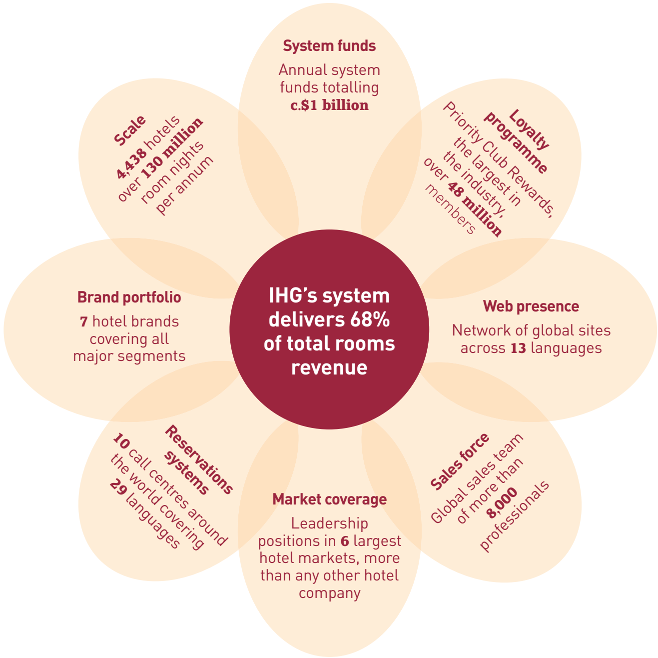
IHG continuing operating profit* by ownership type for the year ended 31 December 2009



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

The IHG global operating system

IHG's operating system is our means of driving demand to our hotels. It comprises hotel distribution, brands, reservations systems, web presence, our rewards scheme and other elements. It is the largest such system in the industry and the engine of our business, delivering, on average, 68% of total rooms revenue.



Business review continued

Business relationships

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 only 3% of the Group's total room count.

Emphasis on revised procurement processes during 2009 continues to improve IHG's relationships with suppliers. We continue to see opportunities for improving effectiveness and efficiency of our buying and sourcing arrangements and are working with suppliers to realise and consolidate these benefits for both IHG and our hotel owners.

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 InterContinental, 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 2009 and into 2010 on the relaunch of the Holiday Inn and Holiday Inn Express brands and our continued response to the economic downturn. Additionally, IHG and the IAHI continue to work together to develop and facilitate key Corporate Responsibility (CR) and operational 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.

Strategy

IHG's ambition

IHG is focused on its core purpose of creating Great Hotels Guests Love. We seek to deliver, among other key performance indicators (KPIs), enduring top quartile shareholder returns when measured against a broad global hotel peer group.

For the three-year period of 2007 to 2009, IHG was fourth among its peers on Total Shareholder Return (TSR).

We have also developed and will measure ourselves against a collection of specific KPIs aimed at delivering our core purpose, cascaded to the hotel level.

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

IHG's strategy

Our strategy has seen significant development through 2009 as we moved to make our core purpose a reality, despite challenging economic circumstances. In 2009, we took 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 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'.

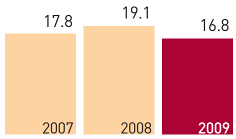
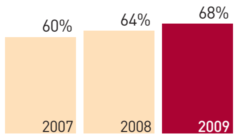
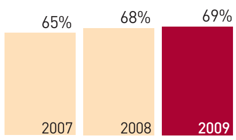
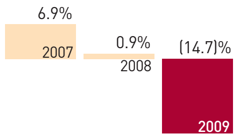
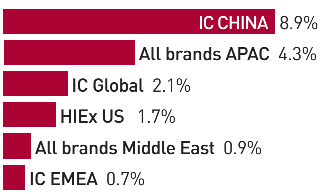
To help our hotels and corporate staff measure their efforts in achieving Great Hotels Guests Love, IHG provides clear metrics aligned with the four 'How we win' priorities against which progress is gauged. Our Group strategy also translates into specific regional objectives and priorities. These are set out in the regional reviews on pages 14 to 19.

Where we compete

Strategic priorities	Key performance indicators (KPIs)	Current status and 2009 developments	2010 priorities
To accelerate profitable growth of our core business in the largest markets where scale really counts and also in key global gateway cities. Seek opportunities to leverage our scale in new business areas.	• Deal signings focused in scale markets and key gateway cities.	• 90% of deals signed in scale markets and key gateway cities; • 10 signings of Hotel Indigo and Staybridge Suites outside of North America; and • 439 hotels opened globally.	• Continue international roll-out of Staybridge Suites and Hotel Indigo; • execute growth strategies in agreed scale markets; and • continue to leverage scale and build improved strategic position during the economic downturn.

BUSINESS REVIEW

How we win

Strategic priorities	Key performance indicators (KPIs)	Current status and 2009 developments	2010 priorities
Financial returns			
To generate higher returns for owners and IHG through revenue delivery and improved operating efficiency.	 **Total gross revenue (TGR)** Actual US$bn  **Percentage system contribution revenue** (reservations channels and PCR members direct) As percentage of rooms revenue	• Increased proportion of revenue delivery through IHG global reservations channels and PCR members direct by four percentage points to an average 68% of global hotel rooms revenue in 2009; • major procurement savings made; • increased use of offshore transaction processing; and • technology infrastructure developed to support owner management and loyalty marketing.	• Increase global salesforce effectiveness; • continue further procurement programmes to identify efficiencies; • begin migration to next-generation revenue management IT systems; and • continue focus on our owned and managed estate margins and return on capital employed (ROCE), especially in our key InterContinental assets.
Our people			
To create a more efficient organisation with strong core capabilities.	 **Employee engagement scores**	• Continued to cascade Great Hotels Guests Love in hotels and corporate offices; • meeting ongoing resourcing requirements to match hotel growth in scale markets; • managing employee engagement; and • continued focus on attracting and retaining talent.	• Drive greater efficiency and simplicity through better use of technology; and • focus on developing skills to support our key goals for responsible business, guest experience and financial returns.
Guest experience			
To operate a portfolio of brands attractive to both owners and guests that have clear market positions and differentiation in the eyes of the guest.	 **Global RevPAR growth/(decline)** Comparable hotels, constant US$  **RevPAR growth ahead of market (%pts)*** IC: InterContinental HIEx: Holday Inn Express	• First 1,697 relaunched Holiday Inn and Holiday Inn Express hotels open around the world; and • industry-leading Priority Club Rewards (PCR) loyalty programme with 48 million members, contributing $5.6bn of global system rooms revenue.	• Complete Holiday Inn repositioning roll-out; • continue to simplify brand standards process to improve owner returns without impairing guest experience; and • continue to 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 26 to 28 for further information.	• Green Engage sustainability management system developed (patent pending); rolled out to over 900 hotels by 31 December 2009; • extensive consumer research undertaken to quantify 'green' opportunity with consumers; and • CR approach defined and agreed – see CR review on pages 26 to 28 for additional details.	• Continue to roll out the Green Engage sustainability management system to 100% of our owned and managed hotels and expand into the franchised estate in all three regions; and • focus on innovation within new and existing brands to deliver valued 'green' related hotels and services to guests.

* Source: IHG analysis and STR.

Business review continued

Group performance

Group results

	12 months ended 31 December		
	2009 $m	2008 $m	% change
Revenue			
Americas	**772**	963	(19.8)
EMEA	**397**	518	(23.4)
Asia Pacific	**245**	290	(15.5)
Central	**124**	126	(1.6)
	1,538	1,897	(18.9)
Operating profit			
Americas	**288**	465	(38.1)
EMEA	**127**	171	(25.7)
Asia Pacific	**52**	68	(23.5)
Central	**(104)**	(155)	32.9
	363	549	(33.9)
Exceptional operating items	**(373)**	(132)	(182.6)
	(10)	417	(102.4)
Net financial expenses	**(54)**	(101)	46.5
(Loss)/profit before tax	**(64)**	316	(120.3)
Earnings per ordinary share			
Basic	**74.7¢**	91.3¢	(18.2)
Adjusted	**102.8¢**	120.9¢	(15.0)

Revenue decreased by 18.9% to $1,538m and operating profit before exceptional items decreased by 33.9% to $363m during the 12 months ended 31 December 2009. Included in these results are $3m of significant liquidated damages received by IHG in 2009 in respect of the settlement of a franchise contract in the EMEA region. During 2008, significant liquidated damages totalling $33m were received across the Group. Excluding these, revenue and operating profit before exceptional items decreased by 17.7% and 30.2% respectively.

The results reflect the challenging global economic environment faced by the Group throughout 2009. Group RevPAR fell 14.7% during the year, with declines in both occupancy and rate. However, stabilising occupancy levels in the fourth quarter indicated a slight rebound in trading conditions which resulted in a RevPAR decline of 10.9% compared to the fourth quarter in 2008. Furthermore, IHG continued to achieve organic growth during the year, increasing its net room count by 4.3% or 26,828 rooms. The Group also made significant progress in the roll-out of the Holiday Inn brand family relaunch, with 1,697 hotels converted globally as at 31 December 2009.

In the year, the Group took a number of actions to improve efficiency and reduce costs which led to a reduction in regional and central overheads of $95m, from $304m in 2008 to $209m in 2009, including a $23m favourable movement in foreign exchange.

As a result of the declining real estate market, the InterContinental Atlanta and Staybridge Suites Denver Cherry Creek no longer meet the criteria for designation as held for sale assets. Consequently, these hotels are no longer categorised as discontinued operations and comparative figures have been re-presented accordingly.

The average US dollar exchange rate strengthened against sterling during 2009 (2009 $1=£0.64, 2008 $1=£0.55). Translated at constant currency, applying 2008 exchange rates, revenue decreased by 17.0% and operating profit decreased by 35.9%.

The results include an exceptional operating charge of $373m, which included a $91m charge comprising the write off of a cash deposit related to certain management contracts with one US hotel owner and the total estimated net cash outflows to this owner under the guarantee, and $197m non-cash impairment charges.

Profit before tax was a loss of $64m for the year, compared to a profit of $316m in 2008. Basic earnings per ordinary share decreased by 18.2% to 74.7¢ and adjusted earnings per ordinary share decreased by 15.0% to 102.8¢.

Total gross revenue

	12 months ended 31 December		
	2009 $bn	2008 $bn	% change
InterContinental	**3.8**	4.1	(7.3)
Crowne Plaza	**3.0**	3.2	(6.3)
Holiday Inn	**5.4**	6.8	(20.6)
Holiday Inn Express	**3.6**	3.9	(7.7)
Staybridge Suites	**0.4**	0.4	–
Candlewood Suites	**0.3**	0.3	–
Other brands	**0.3**	0.4	(25.0)
Total	**16.8**	19.1	(12.0)

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 decreased by 12.0% from $19.1bn in 2008 to $16.8bn in 2009. Translated at constant currency, total gross revenue decreased by 9.9%.

Global hotel and room count

At 31 December	Hotels 2009	Hotels Change over 2008	Rooms 2009	Rooms Change over 2008
Analysed by brand				
InterContinental	**166**	7	**56,121**	1,385
Crowne Plaza	**366**	24	**100,994**	7,612
Holiday Inn	**1,319**	(34)	**240,568**	(9,123)
Holiday Inn Express	**2,069**	137	**188,007**	14,213
Staybridge Suites	**182**	30	**19,885**	3,241
Candlewood Suites	**254**	50	**25,283**	4,642
Hotel Indigo	**33**	11	**4,030**	1,328
Holiday Inn Club Vacations	**6**	5	**2,892**	480
Other	**43**	22	**8,899**	3,050
Total	**4,438**	252	**646,679**	26,828
Analysed by ownership type				
Franchised	**3,799**	214	**483,541**	17,574
Managed	**622**	37	**157,287**	9,047
Owned and leased	**17**	1	**5,851**	207
Total	**4,438**	252	**646,679**	26,828

During 2009, the IHG global system (the number of hotels and rooms which are franchised, managed, owned or leased by the Group) increased by 252 hotels (26,828 rooms; 4.3%) to 4,438 hotels (646,679 rooms). Openings of 439 hotels (55,345 rooms) were focused, in particular, on continued expansion in the US and China.

System growth was driven by brands in the midscale limited service and extended stay segments. Holiday Inn Express represented over 50% of total net growth (137 hotels, 14,213 rooms), whilst Staybridge Suites and Candlewood Suites combined represented approximately 30% (80 hotels, 7,883 rooms). IHG's lifestyle brand, Hotel Indigo, achieved net growth of approximately 50%, with 11 hotels (1,328 rooms) added during the year.

Significant progress has been achieved on the Holiday Inn brand family relaunch with 1,697 hotels open under the updated signage and brand standards as at 31 December 2009. The relaunch aims to refresh the brand and to deliver consistent best in class service and enhanced physical quality in all Holiday Inn and Holiday Inn Express hotels.

Non-brand conforming hotels continued to be removed from the system; global removals totalled 187 hotels (28,517 rooms) during 2009, predominantly Holiday Inn and Holiday Inn Express hotels.

Global pipeline

At 31 December	Hotels 2009	Hotels Change over 2008	Rooms 2009	Rooms Change over 2008
Analysed by brand				
InterContinental	**63**	(8)	**20,173**	(1,711)
Crowne Plaza	**129**	(4)	**38,555**	(2,914)
Holiday Inn	**338**	(49)	**59,008**	(5,253)
Holiday Inn Express	**563**	(156)	**57,756**	(12,514)
Staybridge Suites	**123**	(43)	**13,360**	(4,749)
Candlewood Suites	**169**	(73)	**14,851**	(6,939)
Hotel Indigo	**53**	(3)	**6,660**	(552)
Other	**–**	(1)	**–**	(90)
Total	**1,438**	(337)	**210,363**	(34,722)
Analysed by ownership type				
Franchised	**1,158**	(316)	**126,386**	(30,573)
Managed	**280**	(20)	**83,977**	(3,964)
Owned and leased	**–**	(1)	**–**	(185)
Total	**1,438**	(337)	**210,363**	(34,722)

Global pipeline signings

At 31 December	Hotels 2009	Hotels Change over 2008	Rooms 2009	Rooms Change over 2008
Total	**345**	(348)	**52,891**	(45,995)

At the end of 2009, the IHG pipeline totalled 1,438 hotels (210,363 rooms). The IHG pipeline represents hotels and rooms where a contract has been signed and the appropriate fees paid. Terminations in the pipeline occur for a number of reasons such as withdrawal of financing and changes in local market conditions.

IHG maintained a strong level of new signings despite the impact of the global economic downturn, demonstrating continued demand for IHG brands and represents a key driver of future profitability.

In the year, signings across all regions of 52,891 rooms were added to the pipeline. Overall, the opening of 55,345 rooms, combined with an increase in pipeline terminations, resulted in a net pipeline decline of 34,722 rooms.

Business review continued

The Americas

Americas strategic role

To optimise our core business and cash flow-generating capability by focusing primarily on our substantial midscale franchise business and profitable brand extensions and adjacencies.

2010 priorities

- Complete the roll-out of Holiday Inn repositioning;
- cascade Great Hotels Guests Love to the hotel level;
- optimise IHG's growth and development efforts; and
- focus upscale distribution growth across the InterContinental, Crowne Plaza and Hotel Indigo brands.

Americas results

	12 months ended 31 December		
	2009 $m	2008 $m	% change
Revenue			
Franchised	**437**	495	(11.7)
Managed	**110**	168	(34.5)
Owned and leased	**225**	300	(25.0)
Total	**772**	963	(19.8)
Operating profit before exceptional items			
Franchised	**364**	426	(14.6)
Managed	**(40)**	51	(178.4)
Owned and leased	**11**	55	(80.0)
	335	532	(37.0)
Regional overheads	**(47)**	(67)	29.9
Total	**288**	465	(38.1)

Americas comparable RevPAR movement on previous year

	12 months ended 31 December 2009
Franchised	
Crowne Plaza	(15.9)%
Holiday Inn	(15.5)%
Holiday Inn Express	(12.9)%
All brands	(14.3)%
Managed	
InterContinental	(16.2)%
Crowne Plaza	(19.2)%
Holiday Inn	(17.0)%
Staybridge Suites	(14.8)%
Candlewood Suites	(22.8)%
All brands	(17.8)%
Owned and leased	
InterContinental	(28.2)%

Revenue and operating profit before exceptional items decreased by 19.8% to $772m and 38.1% to $288m respectively. Excluding the receipt of significant liquidated damages of $13m in 2008, revenue and operating profit declined by 18.7% and 36.3% respectively.

The region experienced challenging trading conditions throughout the year leading to RevPAR, revenue and profit declines across all ownership types. Despite RevPAR declines, the region's US comparable hotels demonstrated outperformance relative to the US market.

Franchised revenue and operating profit decreased by 11.7% to $437m and 14.6% to $364m respectively, compared to 2008. This decrease was predominantly driven by a fall in royalty revenues as a consequence of a RevPAR decline of 14.3%. Revenues also included the impact of a decline in real estate activity leading to lower fees associated with activities such as the signing of new hotels and conversions. An increase in overall room supply partially offset the decline in revenue and profit.

Managed revenues decreased by 34.5% to $110m during the year or, by 29.0% excluding the impact of $13m in liquidated damages received in 2008. All brands were impacted by the economic downturn which resulted in RevPAR declines of 17.8%. Operating profit declined by $91m ($78m excluding liquidated damages) resulting in a loss of $40m. The loss was due to RevPAR driven revenue declines, IHG funding owner's priority return shortfalls on a number of hotels managed by one owner and certain guarantee payments. At the year end, an exceptional charge of $91m was recognised comprising the write off of a deposit related to the priority return contracts and the total estimated net cash outflows to this owner under the guarantee. Therefore, future payments to this owner will be charged against the provision and will not impact operating results. The managed results also included the impact of provisions recognised following the devaluation of the Venezuelan currency and the potential impact of asset nationalisation.

Results from managed operations included revenues of $71m (2008 $88m) and operating profit of $nil (2008 $6m) from properties that are structured, for legal reasons, as operating leases but with the same characteristics as management contracts.

Owned and leased revenue declined by 25.0% to $225m and operating profit decreased by 80.0% to $11m. Underlying trading was driven by RevPAR declines, including the InterContinental brand with a decline of 28.2%. Trading at the InterContinental New York, in particular, was severely impacted by the collapse of the financial markets. Results also included the impact of the sale of the Holiday Inn Jamaica, sold in August 2008, which led to a reduction in revenue and operating profit of $16m and $2m respectively when compared to 2008.

As a result of the declining real estate market, the InterContinental Atlanta and Staybridge Suites Denver Cherry Creek no longer meet the criteria for designation as held for sale assets and consequently the results of these hotels are no longer categorised as discontinued operations and comparative figures have been re-presented accordingly.

Regional overheads declined by 29.9% during the year, from $67m to $47m. The favourable movement was driven by increased efficiencies and the impact of an organisational restructuring undertaken to further align the regional structure with the requirements of IHG's owners and hotels.

Americas hotel and room count

At 31 December	Hotels 2009	Hotels Change over 2008	Rooms 2009	Rooms Change over 2008
Analysed by brand				
InterContinental	**55**	–	**18,499**	(3)
Crowne Plaza	**202**	15	**55,690**	4,566
Holiday Inn	**884**	(36)	**158,201**	(10,576)
Holiday Inn Express	**1,846**	124	**158,284**	12,260
Staybridge Suites	**178**	28	**19,320**	2,948
Candlewood Suites	**254**	50	**25,283**	4,642
Hotel Indigo	**32**	11	**3,966**	1,328
Holiday Inn Club Vacations	**6**	5	**2,892**	480
Other brands	**22**	22	**3,219**	3,219
Total	**3,479**	219	**445,354**	18,864
Analysed by ownership type				
Franchised	**3,245**	194	**398,004**	15,934
Managed	**223**	24	**43,638**	2,723
Owned and leased	**11**	1	**3,712**	207
Total	**3,479**	219	**445,354**	18,864

The Americas hotel and room count increased by 219 hotels (18,864 rooms) to 3,479 hotels (445,354 rooms). The growth included openings of 375 hotels (40,584 rooms), predominantly under the franchised business model. By brand, Holiday Inn Express generated openings of 198 hotels (17,491 rooms) whilst the extended stay brands, Staybridge Suites and Candlewood Suites, achieved openings of 78 hotels (7,548 rooms) in 2009. Net growth also included removals of 156 hotels (21,720 rooms), predominantly Holiday Inn and Holiday Inn Express hotels removed as part of the Group's roll-out of the Holiday Inn brand family relaunch which entails the removal of lower quality, non-brand conforming hotels.

Americas pipeline

At 31 December	Hotels 2009	Hotels Change over 2008	Rooms 2009	Rooms Change over 2008
Analysed by brand				
InterContinental	**6**	(1)	**2,040**	(253)
Crowne Plaza	**33**	(10)	**6,962**	(2,685)
Holiday Inn	**216**	(47)	**27,942**	(4,910)
Holiday Inn Express	**486**	(153)	**43,438**	(13,027)
Staybridge Suites	**116**	(38)	**12,508**	(4,170)
Candlewood Suites	**169**	(73)	**14,851**	(6,939)
Hotel Indigo	**47**	(8)	**5,987**	(1,045)
Total	**1,073**	(330)	**113,728**	(33,029)
Analysed by ownership type				
Franchised	**1,063**	(319)	**111,108**	(31,256)
Managed	**10**	(10)	**2,620**	(1,588)
Owned and leased	**–**	(1)	**–**	(185)
Total	**1,073**	(330)	**113,728**	(33,029)

The Americas pipeline totalled 1,073 hotels (113,728 rooms) as at 31 December 2009. During the year, 29,353 room signings were completed, compared with 60,402 room signings in 2008. Signing levels declined as a result of lower real estate and construction activity amid the economic downturn and an associated tightening of credit availability. Demand in the key midscale segment remained positive, representing 66% of hotel signings.

Business review continued

Europe, Middle East and Africa

EMEA strategic role

To manage margins in a diverse and complex region; and seek ways to achieve scale in key geographic areas.

2010 priorities

- Execute growth strategies in agreed scale markets and key gateway cities;
- complete the roll-out of Holiday Inn repositioning;
- cascade Great Hotels Guests Love to the hotel level; and
- leverage scale through sharing best practice across the region.

EMEA results

	12 months ended 31 December		
	2009 $m	2008 $m	% change
Revenue			
Franchised	**83**	110	(24.5)
Managed	**119**	168	(29.2)
Owned and leased	**195**	240	(18.8)
Total	**397**	518	(23.4)
Operating profit before exceptional items			
Franchised	**60**	75	(20.0)
Managed	**65**	95	(31.6)
Owned and leased	**33**	45	(26.7)
	158	215	(26.5)
Regional overheads	**(31)**	(44)	29.5
Total	**127**	171	(25.7)

EMEA comparable RevPAR movement on previous year

	12 months ended 31 December 2009
Franchised	
All brands	(14.9)%
Managed	
All brands	(14.9)%
Owned and leased	
InterContinental	(10.8)%
All ownership types	
UK	(9.8)%
Continental Europe	(17.8)%
Middle East	(14.0)%

Revenue and operating profit before exceptional items decreased by 23.4% to $397m and 25.7% to $127m respectively. At constant currency, revenue and operating profit before exceptional items decreased by 16.8% and 22.8% respectively. The region received significant liquidated damages totalling $16m in 2008 and $3m in 2009. Excluding these receipts, revenue declined by 21.5% and operating profit before exceptional items declined by 20.0%, and at constant currency by 14.7% and 16.8% respectively.

During the year, RevPAR declines were experienced across the region, with declines in key markets ranging from 9.8% in the UK to 17.8% in Continental Europe.

Franchised revenue and operating profit decreased by 24.5% to $83m and 20.0% to $60m respectively, or at constant currency by 18.2% and 13.3% respectively. Excluding the impact of $3m in liquidated damages received in 2009 and $7m received in 2008, revenue and operating profit declined by 22.3% and 16.2% respectively, or at constant currency by 15.5% and 8.8% respectively. The decline was principally driven by RevPAR declines across Continental Europe and the UK, partly offset by a 6% increase in room count.

EMEA managed revenue and operating profit decreased by 29.2% to $119m and 31.6% to $65m respectively, or at constant currency by 25.0% and 29.5% respectively. Excluding the impact of $9m in liquidated damages received in 2008, revenue and operating profit declined by 25.2% and 24.4% respectively, or at constant currency by 20.8% and 22.1% respectively. The results were driven by managed RevPAR declines of 14.9%.

In the owned and leased estate, revenue decreased by 18.8% to $195m and operating profit decreased by 26.7% to $33m, or at constant currency by 10.4% and 17.8% respectively. The InterContinental Paris Le Grand, in particular, was adversely impacted by the economic downturn as both business and leisure travel to Paris declined. However, trading at the InterContinental London Park Lane, was more resilient, with RevPAR down just 1.7% during the year.

Regional overheads decreased by 29.5% to $31m due to improved efficiencies and cost savings, as well as a favourable movement in foreign exchange of $6m.

EMEA hotel and room count

At 31 December	Hotels 2009	Hotels Change over 2008	Rooms 2009	Rooms Change over 2008
Analysed by brand				
InterContinental	**65**	1	**20,586**	(250)
Crowne Plaza	**93**	4	**22,157**	1,428
Holiday Inn	**333**	1	**53,372**	333
Holiday Inn Express	**197**	11	**23,259**	1,695
Staybridge Suites	**4**	2	**565**	293
Hotel Indigo	**1**	–	**64**	–
Other	**2**	1	**293**	90
Total	**695**	20	**120,296**	3,589
Analysed by ownership type				
Franchised	**520**	28	**78,216**	4,140
Managed	**171**	(8)	**40,634**	(551)
Owned and leased	**4**	–	**1,446**	–
Total	**695**	20	**120,296**	3,589

During 2009, EMEA hotel and room count increased by 20 hotels (3,589 rooms) to 695 hotels (120,296 rooms). The net room growth included openings of 37 hotels (6,427 rooms) and removals of 17 hotels (2,838 rooms). System growth by brand was driven by Holiday Inn and Holiday Inn Express, which together accounted for 65% of the region's hotel openings, and by Crowne Plaza, which achieved net rooms growth of 7% over 2008. By ownership type, net movement during the year included the conversion of 13 managed hotels in Spain to franchise contracts.

EMEA pipeline

At 31 December	Hotels 2009	Hotels Change over 2008	Rooms 2009	Rooms Change over 2008
Analysed by brand				
InterContinental	**23**	(5)	**6,100**	(962)
Crowne Plaza	**24**	(1)	**6,641**	(646)
Holiday Inn	**45**	(5)	**10,429**	225
Holiday Inn Express	**49**	(8)	**7,088**	(702)
Staybridge Suites	**7**	(5)	**852**	(579)
Hotel Indigo	**4**	4	**351**	351
Other	**–**	(1)	**–**	(90)
Total	**152**	(21)	**31,461**	(2,403)
Analysed by ownership type				
Franchised	**93**	3	**14,952**	684
Managed	**59**	(24)	**16,509**	(3,087)
Total	**152**	(21)	**31,461**	(2,403)

The pipeline in EMEA decreased by 21 hotels (2,403 rooms) to 152 hotels (31,461 rooms). The movement in the year included 8,442 room signings, with continued demand for IHG brands in the UK, Middle East and Germany. Demand was particularly strong in the midscale sector which represented 66% of room signings. IHG's lifestyle brand, Hotel Indigo, continued its expansion with four hotels in the closing pipeline, including two in London.

Business review continued

Asia Pacific

Asia Pacific strategic role

To drive profitable growth in emerging key markets and cities.

2010 priorities

- Complete the roll-out of Holiday Inn repositioning;
- cascade Great Hotels Guests Love to the hotel level; and
- focus on key profit-generating hotels and cities around the region.

Asia Pacific results

	12 months ended 31 December		
	2009 $m	2008 $m	% change
Revenue			
Franchised	**11**	18	(38.9)
Managed	**105**	113	(7.1)
Owned and leased	**129**	159	(18.9)
Total	**245**	290	(15.5)
Operating profit before exceptional items			
Franchised	**5**	8	(37.5)
Managed	**44**	55	(20.0)
Owned and leased	**30**	43	(30.2)
	79	106	(25.5)
Regional overheads	**(27)**	(38)	28.9
Total	**52**	68	(23.5)

Asia Pacific comparable RevPAR movement on previous year

	12 months ended 31 December 2009
Managed – all brands	
Asia Pacific	(12.5)%
Greater China	(15.6)%
Owned and leased	
InterContinental	(22.2)%
All ownership types	
Greater China	(16.9)%

Asia Pacific revenue and operating profit before exceptional items decreased by 15.5% to $245m and 23.5% to $52m respectively. Excluding the receipt of $4m in significant liquidated damages in 2008, revenue and operating profit declined by 14.3% and 18.8% respectively. Despite RevPAR declines of 13.5%, the region's brands demonstrated outperformance relative to the market.

Franchised revenues and operating profit decreased by 38.9% to $11m and 37.5% to $5m respectively. Excluding the impact of $4m in liquidated damages received in 2008, revenue decreased by 21.4% and profit increased by $1m or 25.0%. The decline in revenue was driven by lower RevPAR and the loss of royalties following the removal of six hotels (1,067 rooms) which did not meet IHG's brand and quality standards.

Managed revenue decreased by 7.1% to $105m and operating profit decreased by 20.0% to $44m. RevPAR across the Greater China managed estate declined by 15.6%, primarily due to room oversupply in key Chinese cities, such as Beijing, and trading upside in 2008 from the Olympic Games.

In the owned and leased estate, revenue decreased by 18.9% to $129m and operating profit decreased by 30.2% to $30m. These results were driven by the InterContinental Hong Kong, where RevPAR declined by 22.2% during the year.

Regional overheads decreased by 28.9% to $27m, due to the impact of regional restructuring and lower marketing costs associated with the All Nippon Airways joint venture in Japan.

Asia Pacific hotel and room count

At 31 December	Hotels 2009	Hotels Change over 2008	Rooms 2009	Rooms Change over 2008
Analysed by brand				
InterContinental	**46**	6	**17,036**	1,638
Crowne Plaza	**71**	5	**23,147**	1,618
Holiday Inn	**102**	1	**28,995**	1,120
Holiday Inn Express	**26**	2	**6,464**	258
Other	**19**	(1)	**5,387**	(259)
Total	**264**	13	**81,029**	4,375
Analysed by ownership type				
Franchised	**34**	(8)	**7,321**	(2,500)
Managed	**228**	21	**73,015**	6,875
Owned and leased	**2**	–	**693**	–
Total	**264**	13	**81,029**	4,375

Asia Pacific hotel and room count increased by 13 hotels (4,375 rooms) to 264 hotels (81,029 rooms), including the opening of 27 hotels (8,334 rooms) offset by the removal of 14 hotels (3,959 rooms). The growth was predominantly driven by the opening of 17 hotels (5,776 rooms) in Greater China reflecting continued expansion in one of IHG's strategic markets.

Asia Pacific pipeline

At 31 December	Hotels 2009	Hotels Change over 2008	Rooms 2009	Rooms Change over 2008
Analysed by brand				
InterContinental	**34**	(2)	**12,033**	(496)
Crowne Plaza	**72**	7	**24,952**	417
Holiday Inn	**77**	3	**20,637**	(568)
Holiday Inn Express	**28**	5	**7,230**	1,215
Hotel Indigo	**2**	1	**322**	142
Total	**213**	14	**65,174**	710
Analysed by ownership type				
Franchised	**2**	–	**326**	(1)
Managed	**211**	14	**64,848**	711
Total	**213**	14	**65,174**	710

The pipeline in Asia Pacific increased by 14 hotels (710 rooms) to 213 hotels (65,174 rooms). Pipeline growth was fuelled by the Greater China market which generated 75% of the region's room signings, followed by India, which contributed a further 16%. From a brand perspective, Crowne Plaza experienced the highest demand with 45% of the region's room signings, followed by Holiday Inn, which contributed a further 32%. During the year, the first Hotel Indigo was signed in Hong Kong.

Business review continued

Central

Central results

	12 months ended 31 December		
	2009 $m	2008 $m	% change
Revenue	124	126	(1.6)
Gross central costs	(228)	(281)	18.9
Net central costs	(104)	(155)	32.9

During 2009, net central costs decreased by 32.9% from $155m to $104m. The significant reduction was driven by management actions to increase efficiencies and implement cost-saving measures across the Group. Relative to 2008, the 2009 net central costs also benefited from a $16m favourable movement in foreign exchange whilst the 2008 results included the receipt of a favourable $3m insurance settlement.

System Funds

System Fund results

	12 months ended 31 December		
	2009 $m	2008 $m	% change
Assessments	1,008	990	1.8

In the year to 31 December 2009, assessments increased by 1.8% to $1.01bn primarily as a result of the growth in system size and marketing programmes.

Hotels operated under IHG brands are, pursuant to terms within their contracts, subject to cash assessments for the provision of brand marketing, reservations systems and the Priority Club loyalty programme. These assessments, typically based upon room revenue, are pooled for the collective benefit of all hotels by brand or geography into the System Funds (the Funds). The Group acts on behalf of hotel owners with regard to the Funds, and the Owners' Association, the IAHI, provides a governance overview of the operation of the Funds. The operation of the Funds does not result in a profit or loss for the Group and consequently the revenues and expenses of the Funds are not included in the Group Income Statement.

Other financial information

Exceptional operating items

Exceptional operating items of $373m consisted of:

- $91m charge, comprising an onerous contract provision of $65m for the future net unavoidable costs under a performance guarantee related to certain management contracts with one US hotel owner, and a deposit of $26m written off as it is no longer considered recoverable under the terms of the same management contracts;
- $19m in relation to the Holiday Inn brand family relaunch;
- $21m enhanced pension transfers to deferred members of the InterContinental Hotels UK Pension Plan who accepted an offer to receive the enhancement as either a cash lump sum or an additional transfer value to an alternative pension plan provider;
- $197m of non-cash impairment charges reflecting the weaker trading environment in 2009, including $45m relating to hotels reclassified from held for sale assets;
- $43m which primarily related to the closure of certain corporate offices together with severance costs arising from a review of the Group's cost base; and
- $2m loss on disposal of hotels.

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

Net financial expenses

Net financial expenses decreased from $101m in 2008 to $54m in 2009, due to lower net debt levels and lower interest rates. Average net debt levels in 2009 were lower than 2008 primarily as a result of cost reduction programmes and an increased focus on cash.

Financing costs included $2m (2008 $12m) 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 2009 also included $18m (2008 $18m) in respect of the InterContinental Boston finance lease.

Other financial information continued

Taxation

The effective rate of tax on the combined profit from continuing and discontinued operations, excluding the impact of exceptional items, was 5% (2008 23%). The rate is particularly low in 2009 due to the impact of prior year items relative to a lower level of profit than in 2008. By excluding the impact of prior year items, which are included wholly within continuing operations, the equivalent tax rate would be 42% (2008 39%). 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 $287m (2008 $42m) in respect of continuing operations. This represented 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 2009 totalled $2m (2008 $2m) including $1m (2008 $3m) 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 ordinary share

Basic earnings per ordinary share in 2009 was 74.7¢, compared with 91.3¢ in 2008. Adjusted earnings per ordinary share was 102.8¢, against 120.9¢ in 2008.

Dividends

The Board has proposed a final dividend per ordinary share of 29.2¢ (18.7p). With the interim dividend per ordinary share of 12.2¢ (7.3p), the full-year dividend per ordinary share for 2009 will total 41.4¢ (26.0p).

Share price and market capitalisation

The IHG share price closed at £8.93 on 31 December 2009, up from £5.62 on 31 December 2008. The market capitalisation of the Group at the year end was £2.6bn.

Capital structure and liquidity management

Net debt at 31 December	2009 $m	2008 $m
Borrowings		
Sterling*	–	152
US dollar*	866	889
Euro	216	224
Other	53	90
Cash*	(53)	(82)
Net debt	1,082	1,273
Average debt levels	1,231	1,498

* Including the impact of currency derivatives.

Facilities at 31 December	2009 $m	2008 $m
Committed	1,693	2,107
Uncommitted	25	25
Total	1,718	2,132

Interest risk profile of gross debt for major currencies at 31 December	2009 %	2008 %
At fixed rates	90	53
At variable rates	10	47

In response to the challenging economic environment the Group continued its focus on cash management during 2009. In the year, $432m of cash was generated from operating activities, with the other key elements of the cash flow being:

- proceeds from the disposal of hotels and investments of $35m; and
- capital expenditure of $148m, including $65m to purchase the Hotel Indigo San Diego.

The Group is mainly funded by a $1.7bn syndicated bank facility, of which $1.6bn matures in May 2013 and an $85m term loan that matures in November 2010.

In December 2009, the Group issued a seven-year £250m public bond, at a coupon of 6%, which was initially priced at 99.465% of face value. The £250m was immediately swapped into US dollar debt using currency swaps and the proceeds were used to reduce the term loan which matures in November 2010 from $500m to $85m. Additional funding is provided by a finance lease on the InterContinental Boston.

Net debt at 31 December 2009 decreased by $191m to $1,082m and, in the table above, included $204m in respect of the finance lease commitment for the InterContinental Boston and $415m in respect of currency swaps related to the sterling bond.

Further information on the Group's treasury management can be found in note 22 on pages 89 and 90 in the notes to the Group financial statements 2009.

Business review continued

Our people

IHG directly employed an average of 7,556 people worldwide during 2009 whose costs are borne by the Group. When the whole IHG estate is taken into account (including staff working in the franchised and managed hotels) approximately 335,000 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 in Japan – in total approximately 110,000 people.

During 2009, our business faced a challenging trading environment and we have been balancing cost reduction and restructuring programmes while managing engagement for our people and guests. Furthermore, we have been attracting, retaining and inspiring people to deliver our core purpose, Great Hotels Guests Love.

To achieve Great Hotels Guests Love the Group has, over the past three years, developed a clear articulation of our values and the behaviours expected from all employees, as well as creating the right environment for employees so that they can deliver our core purpose.

Creating the right environment: Room to be yourself

IHG has developed an employment brand that provides the environment which helps our people to be successful. As part of our brand, we make four key promises which are described as part of our Room to be yourself commitment. People processes have been aligned to our commitment to ensure that we can meet a set of defined standards.

Displaying the right behaviour: 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.

Focusing on the right activity: Great Hotels Guests Love

During the past year, we have aligned Winning Ways and Room to be yourself with our core purpose so that people understand how the work they do delivers Great Hotels Guests Love.

We have communicated Great Hotels Guests Love extensively during 2009 and we have given our people clear direction on what is important for us as a business. This effort will continue throughout 2010.

Room to be yourself

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.

Minnie Zhu
Personal Assistant
Shanghai

Winning Ways

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.

Great hotels guests love

Financial returns

Our people

Guest experience

Responsible business

Creating the right environment: Room to be yourself

Room to have a great start

In spite of the continuing economic recession and its impact on revenues, we continued to open hotels and we anticipate the need to recruit 160,000 people over the next three years. IHG's online recruitment system attracts and matches candidates to job vacancies. Over 240,000 CVs were posted to the site during the last year and over 6,000 people were appointed as a result of their online applications.

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 11 locations, are supported by 25 partners in the region and in December 2009 had 5,000 students enrolled on one of these programmes.

Our franchisee in Panama continues to provide 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. During the year, we have been planning a similar hotel school in Egypt. 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.

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 continued to improve 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 89,000 employees participating in the November 2009 survey.

Division/region	**2009 response rates %**	2008 response rates %
Americas hotels	**90**	89
EMEA hotels	**89**	86
Asia Pacific hotels	**93**	93
Corporate offices	**89**	88
Reservations centres	**91**	87

Business review continued

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 2009, IHG's engagement index improved by one percentage point to 69%. The survey also highlights that our people are proud of IHG and retention and advocacy has remained stable during the year.

We have used our survey to track awareness and understanding of Great Hotels Guests Love. Our November 2009 employee survey results show that 90% of our people understand Great Hotels Guests Love and that it has helped them focus on the right things for the business.

Room to grow

To meet the demands of our growth and to deliver Great Hotels Guests Love, IHG continues to focus on developing talent.

During 2009, we again conducted our annual review of the Group's 1,300 corporate managers and hotel general managers to identify skills required for the future and how to develop individuals. The outcome is to increase 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.

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 85% of employees agree that IHG delivers training to assist with their current roles, which is a three percentage point improvement on 2008.

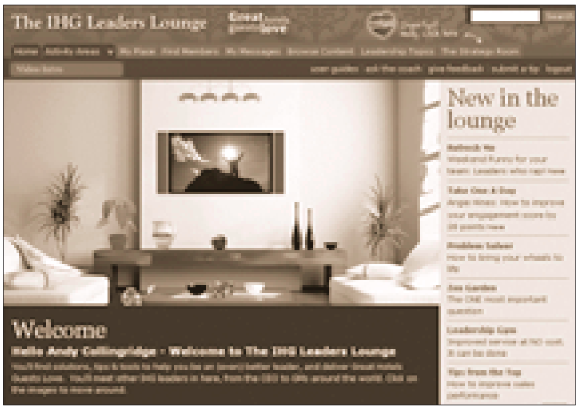
In support of the 'Holiday Inn refresh' programme, IHG continued the intensive and comprehensive training programme entitled 'Stay Real' to ensure that all employees working in a Holiday Inn or Holiday Inn Express hotel receive training to help them deliver the service experience expected by guests.

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 2009, 49 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.

The Leaders Lounge, an online leadership development system, has been launched which provides cost-effective and high-quality development and communication to all of our senior leaders. This forum 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.

We were proud to receive the CIPD People Management Award 2009 for Excellence through technology, sponsored by IBM, for our Leaders Lounge. The Lounge was recognised for the innovative way it trains people.



The succession planning process for senior leadership roles has continued in 2009, enabling IHG to manage changes in leadership. During 2009, the senior corporate team underwent significant restructuring to become more efficient and better positioned for the economic recovery. As a result, 18% of senior executive roles were eliminated and 26 senior executives left the Group. To ensure that the key functions and operations areas were appropriately managed and to provide development for high-potential leaders, a number of senior roles were combined. In the Asia Pacific region, we took the decision to create two independent business units focused on Greater China and Asia Australasia. This resulted in one member of the Executive Committee leaving IHG.

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.

IHG manages performance by helping people to align their objectives to our core purpose. The Group also encourages managers to acknowledge employee achievements or contributions as part of our Winning Ways culture.

London 2012 Olympic and Paralympic Games

The selection of Holiday Inn and Holiday Inn Express as the Official Hotel Services Provider to the London 2012 Olympic and Paralympic Games provides a great opportunity to engage and motivate our people to build our business and our Holiday Inn brand. It also helps us to reinforce our commitment to the community and our approach to corporate responsibility.

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.

Carleigh Chadwick, Accessibility Manager UK & Ireland, won the Disability Champion Award 2009 at the Disability Standard awards run by the Employers' Forum on Disability. This is given to the person who has gone the extra mile to raise the profile of disability confidence in their organisation.

External recognition

During the year, IHG won a number of prestigious awards in recognition of its people management and HR practices.

IHG was declared Britain's Most Admired leisure and hospitality company for the third year running. The awards are a peer review of corporate reputation and are presented by Management Today and the Birmingham City Business School.

IHG's InterContinental London Park Lane hotel won the Retention award at the UK's Springboard Awards for Excellence 2009 in Hospitality, Leisure, Travel and Tourism. This award recognises successful innovation in consistently tackling labour turnover and improving retention rates through a business-wide approach implemented at all levels. Even in challenging economic times, the hotel's retention rate has increased and a record number of promotions and transfers within IHG have been achieved, demonstrating InterContinental London Park Lane's commitment to celebrating talent and expanding knowledge within the hospitality industry.

A number of IHG people have been recognised for achievements and service excellence. This included colleagues from Crowne Plaza hotels in Australia being awarded the MasterCard-U21Global Scholarship Programme for Women in Travel and Tourism and five overall winners across 19 categories at the Middle East Hotelier Awards.

IHG also received an award from the American Society for Training & Development. This award recognises organisations that demonstrate enterprise-wide success through employee learning and development, showing they are BEST at Building talent, Enterprise-wide, Supported by the organisation's leaders and fostering a Thorough learning culture. Our training and development priorities are linked to the Group's business priorities, we engage with stakeholders and we measure results to show added value to the business.

Economic conditions

The trading environment continued to be difficult throughout 2009 and as previously mentioned, our corporate teams were restructured in the UK, Atlanta and Singapore. These efforts have supported the business to operate 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 affected individuals to provide support and access to external job opportunities.

Ensuring health and safety

Providing and supporting a safe and secure environment for our guests, employees and visitors is paramount and IHG applies high standards of health and safety across the Group. Our Global Risk Management team evaluates policies and procedures, operating a range of health and safety and security measures and we require all parties to comply with relevant health and safety legislation.

All of our Group companies are responsible for protecting the health of our employees through suitable work-based strategies; minimising the risk of injury from work activity; ensuring that sufficient resources, information and systems are in place to address health and safety; and involving employees in continuous improvement, reporting and review of health and safety matters.

Further information on our approach towards safety and security can be found on pages 29 to 34 of this Business Review and in the online Corporate Responsibility Report at www.ihgplc.com/responsibility

Business review continued

Corporate responsibility

Corporate responsibility (CR) is integral to the way we conduct our business and is at the core of our strategy. As well as helping us to create value for the business and build competitive advantage, acting responsibly is playing a key role in our efforts to manage costs and drive revenue more effectively.

With over 4,400 hotels worldwide and a new hotel opening every day, we have a considerable responsibility and opportunity to ensure our operations make a positive difference. Responsible tourism also makes good business sense – it reduces our costs, particularly in energy, and shows our guests that we are acting on issues that concern them, such as the environment and supporting the communities in which we operate.

Our approach

In February 2009 the IHG Board established a Corporate Responsibility Committee to set out and deliver the strategic priorities of the responsible business objectives of Great Hotels Guest Love, and to make sure we have the right policies, management and measurement systems in place. The Committee is chaired by Jennifer Laing, a Non-Executive Director. It met twice in 2009, focusing on developing our carbon strategy, defining the role of hotels in society and improving our CR communications.

Our CR strategy is concentrated on two main 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, particularly the creation of local economic opportunities and charitable work.

We engage with stakeholders to help us identify and tackle our priorities. Our stakeholders include guests and corporate clients, hotel owners and franchise holders, local communities, employees, shareholders, suppliers, academic institutions, non-government organisations, governments, and institutional stakeholders. We elicit their views through a range of processes including forums, meetings, individual interviews, surveys and our award-winning online virtual Innovation Hotel where guests and members of the public can access our latest thinking and share ideas for creating a green hotel. Visitor comments inform the development of our strategy and any future green products and services.

Online Innovation Hotel

Stakeholders also help us improve our performance through feedback on our current programme and communications. In 2009, we responded to their comments by revisiting the community aspect of our strategy and being more proactive in our CR communications, making them more relevant for specific stakeholder groups. For instance, we held a Green Day for employees at our UK head office, which we plan to follow up with a CR section in our online Leaders Lounge and a green forum to provide staff with a more formal platform through which to share CR learning.

In 2010, we will update elements of our online CR report on a quarterly basis, with a more comprehensive annual update available at the end of the year. We will continue to explore ways of improving how we engage with stakeholders and seek more opportunities to share learning on CR through, for example, round-table events.

Review of 2009

Our CR strategy is based on innovation and collaboration. We look for creative solutions to the environmental and social challenges we face and work in partnership with our stakeholders to implement them.

Over the past two years we have been building a solid foundation of policy, management and measurement on which to base our CR strategy and activities. This has involved putting systems in place and working closely with our stakeholders to identify the areas that have the highest impact for them and our business.

We have also made good progress on initiatives that help us address two of our industry's biggest challenges – climate change and the recent economic downturn, particularly its impact on local communities. Through key initiatives such as Green Engage, our online sustainability programme, the IHG Academies and the Innovation Hotel we are measuring and managing our environmental impacts, and providing jobs and training opportunities in our communities.

We aim to make a night with IHG more carbon efficient

Tourism is an important source of wealth for many countries, particularly developing countries where tourism may be the primary force driving economic prosperity. At the same time the industry faces increasing pressure to balance its economic performance with its social and environmental impacts.

We believe the tension between tourism and the environment can be creative, providing an opportunity to innovate. We have chosen to tackle carbon emissions by seeking new ways to reduce and manage emissions across our hotel estate rather than through purchasing carbon offsets. This provides an opportunity to work closely with our business partners, such as hotel owners and suppliers, to identify and implement practical, cost-efficient measures that are both sustainable and responsible.

Through Green Engage, our online sustainability tool, we are working to deliver real emissions cuts through new and better ways to design, build and run our hotels. Launched in March 2009, Green Engage enables us to track and report on our key environmental impacts. It also allows our hotels to identify the most appropriate solutions to their local environmental risks. The system is helping us work towards our strategic aim of making a night with IHG more carbon efficient.

Analysis of a representative sample of our portfolio of managed and owned hotels demonstrated up to a 10% reduction in energy consumption in 2009.

Green Engage is being rolled out progressively across our entire hotel estate and currently has over 900 hotels using the system. In addition to making it more intuitive, we are supporting the system with a new training package for our staff and hotel owners called 'Green Engage – the fundamentals'. In 2009, 300 people took the course and we plan to roll it out further in the coming year.

Regulation and legislation
IHG is exposed to increasing legal environmental measures, particularly on regulation of greenhouse gas emissions and other resources.

In 2010, our UK operations will have to comply with a new carbon trading scheme, the Carbon Reduction Commitment. This will compel companies to monitor energy use and purchase carbon allowances corresponding to CO_2 emissions.

To address these and other complex regulatory requirements, we have set up a Carbon Strategy Team. We review our carbon strategy regularly with the CR Committee and have discussed this issue with our independent owners' group, the IAHI, to ensure our franchise business partners are fully engaged.

Responsible tourism means creating opportunities for local people
Travel and tourism generates more than 9% of global GDP (Source: World Travel and Tourism Council). However, sometimes as little as 10% of the money spent on holiday remains in the destination economy (Source: International Tourism Partnership).

We are currently reviewing our community activities so that IHG can have an even greater positive impact on the communities in which we operate. Our revised Community Strategy will be launched in 2010.

Given the economic downturn, our focus this year has been on maximising the benefits we bring to local economies via direct and indirect employment, taxes paid, local purchasing and donations to community projects.

Green Engage recommends that hotels take actions such as forming partnerships with local businesses, employing local people, and supporting local community projects. It also surveys their grass-roots activities, such as in-kind donations, grants and volunteering programmes.

Developing countries are often unable to benefit from tourism opportunities because they lack a skilled workforce. We train potential employees in our communities and work with local and regional Chambers of Commerce and trade and industry associations to support workforce development. In China, we launched the IHG Academy, working with renowned educational institutes in the region. The IHG Academy provides hospitality training for local people and subsequently offers them employment within our growing portfolio of hotels. We now have 25 Academies in 11 locations, with 5,000 students enrolled.

Awards
Our activities won several awards this year, including:

- 2009 Hotel Visionary Award from Hospitality Technology magazine for Green Engage;
- Worldwide Hospitality Awards for Best Initiative in Sustainable Development 2009 – for Green Engage and the Innovation Hotel;
- The National Business Travel Association recognised our commitment to supporting societal needs and reducing our environmental impact at its first annual Corporate Social Responsibility Awards this year; and
- our sound corporate governance was recognised in a survey of the top 100 companies listed on the London Stock Exchange, conducted by consultancy firm Resources Global Professionals – IHG was ranked third. This included high ratings for our compliance, capacity and commitment to excellence in corporate governance across a range of areas, including community, environment and people issues.

Policies and Code of Ethics
Amongst the Group's core values is the concept that all employees should have the courage and conviction to do what is right. We have detailed policies on the environment, human rights and the community and we have a global Code of Ethics and Business Conduct.

The 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.ihgplc.com/investors under corporate governance.

Business review continued

Performance and targets

The following table outlines IHG's overall CR priorities, developments and achievements during the year and priorities for 2010. The main headings, Innovation, Collaboration, Environment and Community reflect the current focus of our CR strategy.

CR priorities	2009 developments and achievements	2010 priorities
Innovation	• Improved internal and external CR communications through our CR communications plan, the Innovation Hotel and online CR report; • continued to update our CR strategy and integrated it fully into our Great Hotels Guests Love objectives; • established our CR Committee to review and update all policies on an ongoing basis; and • signed the United Nations (UN) Global Compact and joined forces on a conservation project with Oxford University to help inform future hotel design and operation.	• Seek to develop commercial applications for our CR innovations where appropriate in our hotels; and • make our Innovation Hotel more interactive.
Collaboration	• Our InterContinental brand partnered with the National Geographic Centre for Sustainable Destinations to develop a responsible tourism strategy; • became a member of the UN Global Compact and are committed to aligning our operations, culture and strategies with 10 universally accepted principles in the areas of human rights, labour, environment and anti-corruption; • refreshed our Green Aware Training to align with Green Engage and renamed it 'Green Engage – the fundamentals'. Also trialled this as a web-based event; and • refined our approach to community support by adding several new question categories to our general managers' community involvement survey, and integrating it with Green Engage to make it easier for our hotels to use. We continue to analyse this data.	• Agree strategies to integrate CR into the brand planning process for all main brands; • refine our stakeholder engagement process; • improve the way our employees engage with CR; and • continue to update Green Engage with new learning in 2010, focusing on making it easier to use at the hotel level.
Environment	• Loaded historic data into Green Engage to enable our hotels to track their current performance against previous performance; • Green Engage rolled out to all our managed and owned hotels, and opened up to any other hotels wishing to participate. Over 900 hotels now registered to use the system; • using Green Engage to measure our CR objective of making a night's stay with IHG more carbon efficient; and • decided against building a Green Hotel Room prototype at our UK head office. Our online Innovation Hotel is sufficiently helpful and, on reflection, we believe it would be more beneficial to consider how to make an entire hotel greener rather than focus on one room. We will build this into our approach next year.	• Continue to roll out Green Engage to 100% of our managed and owned hotels and expand to franchised hotels in all three regions; • ensure that Green Engage is used accurately and regularly by participating hotels; • develop a carbon strategy; and • continue to build on our corporate office sustainability innovations using the Innovation Hotel and Green Engage.
Community	• The IHG Academy was the cornerstone of our efforts to develop a more globally integrated approach to local economic development initiatives across all our operating regions; • used the results of our general managers' community involvement survey to refine our community strategy; and • continued to participate in an ongoing five-year study on hotel energy efficiency with the US Department of Energy.	• Use government regulation and legislation worldwide to inform our community strategy; • focus on further implementation and expansion of the IHG Academy; • refine our current community policy based on a review of our existing approach to community support; • conduct a regular review of our community partnerships; and • work with the London Organising Committee of the Olympic and Paralympic Games to support the sustainability goals of London 2012.

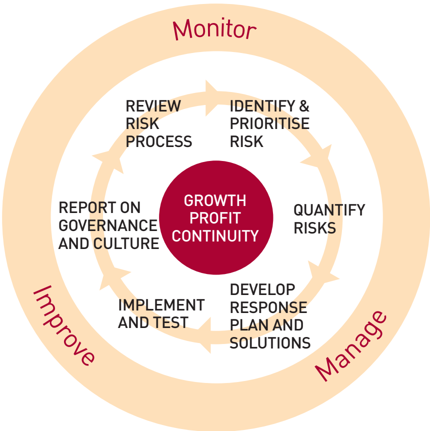
For more information please visit our corporate responsibility website at **www.ihgplc.com/responsibility** and the Innovation Hotel at **www.ihgplc.com/innovation**

Risk management

Corporate risk management

Culture, capability, process and framework

The management of major risks to IHG is represented below:



IHG has an established global risk management process and framework embedded in all operations teams and functions. Our goal is to develop a robust, responsive, resilient process, and a successful, respected, responsible business over the long term. In doing so we support the main functions of the Board in:

- identifying and managing risk in alignment with our strategic objectives and the long-term value drivers in the business; and
- enabling management to demonstrate a responsible and proactive, embedded approach to risk management.

The development of IHG's risk management culture and capability is a collaborative effort led by the Company Secretary. Our vision is to foster a culture that becomes instinctive, curious, alert, responsive, consistent and accountable.

Risk management activity permeates the whole Group but, most importantly, as part of the strategic review process between the Chief Executive and individual Executive Committee members, major risks are identified and considered.

Working together to mitigate corporate risk

To enhance the management and visibility of corporate risks, IHG has set up a Global Risk Working Group with the following primary objectives to:

- foster improved risk management across IHG's leadership teams and improved assurance to the IHG Board;
- create a better understanding of key risks and controls, in particular, cross-functional risks, which may prevent delivery of IHG's strategy;
- highlight risks not being adequately addressed;
- encourage and facilitate sharing of best practice across the organisation;
- reduce the total cost of risk by sponsoring continuous risk improvement; and
- monitor and periodically examine risk culture and governance.

In addition, the strategy, risk and internal audit teams work together to align activities to ensure that the discipline of corporate risk management is relevant, valuable and efficiently applied across the business.

Strategy:
The Global Strategy function provides a strong link to value creation opportunities and asset protection requirements of the business and gives access to the core business agenda.

Risk Management:
The Global Risk Management function focuses on driving action to support the strategy and protect assets by building a risk-aware and proactive culture and capability amongst management, focusing on risks prioritised by the business leaders.

Assurance:
Global Internal Audit provides assurance, identifies vulnerabilities and presents opportunities for new, or improvements to existing, controls that business leaders might not have identified for themselves.

Risk identification and crisis response workshops are run with the senior leadership teams to identify, prioritise and agree outline plans to mitigate risks. The output is a risk register (including action plans) with risks assigned to each member of the Executive Committee.

The Executive Committee uses the findings to identify the major areas of risk for the Group 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.

Business review continued

The key elements of our risk management framework are represented below:

In 2009, Global Risk Management worked with 'risk owners' to refresh risk registers and validate risks for continued relevance, identify emerging risks and prioritise all risks in terms of financial impact and likelihood of occurrence. Existing controls were assessed as well as the ability, benefit and cost to improve them. This work is documented in risk action plans which support the risks reported in the Group Risk Register.

Global Risk Management's role is to coach, co-ordinate, research and challenge. The function also submits regular incident reports and two full 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 the Group.

Global Internal Audit is separately responsible for providing assurance across the Group and provides reports on the internal control framework to the Audit Committee. This ensures separation of duties between the risk management and internal audit functions and hence supports good governance.

Good governance is also supported through the leadership of the Global Risk Working Group by the Company Secretary. This ensures appropriate access to the Board, its Committees and both the Chief Executive and the Chairman.

Risk mitigation activity

There are many risk control measures in place throughout IHG. However in a dynamic environment it is important to anticipate emerging and changing risks. The following paragraphs aim to give an insight into this activity.

Uncertainty over liquidity sources continued in the financial markets throughout 2009 and in light of this, but with positive trends in the Eurobond markets in the latter part of 2009, the decision was taken to refinance part of the Group's bank debt early. In December 2009, IHG issued a seven-year £250m bond, successfully diversifying its funding sources and extending the duration of a portion of its debt.

In response to increased information security issues, considerable time and effort has been invested in identifying vulnerabilities to security breaches and building capability and resilience into our systems, including the adoption of payment card industry (PCI) standards regarding data security. A responsible approach to compliance on PCI has been laid out and considerable progress has been achieved within our data centres and corporate environments. Franchised, managed and owned properties are also being handled in an appropriate manner to ensure the level of awareness, risk and actions for compliance are taken. In addition, a great deal of effort has been spent partnering with credit card companies and credit card processors globally, to ensure our measures are understood and are sound. Transparency and oversight of the security programme is carried out by a senior global council representing all major Group functions.

In 2009, we have concentrated on updating business continuity and disaster recovery plans for the Group's main business hubs and key platforms. Recent flood events in the Philippines demonstrated the ability of our Central Reservations Offices to move work around the world with little impact on the business as a whole.

Hotel safety standards across regions, brands and business models have been reviewed and transformed into a clear set of global standards, enhancing safety and security further and enabling greater consistency.

The threat posed by a global pandemic was anticipated and planned for through documented contingency plans and response procedures. This minimised the impact of the virus.

Security risks, particularly the threat of terrorism, continue to be a significant concern for the hospitality industry as a whole. IHG has developed a sophisticated response programme 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 IHG continues to develop and maintain: physical and technical systems; people capabilities; and processes and procedures.

Crisis management and communication plans have been refreshed and there has been significant effort to train senior management teams using worst case scenarios. Over the years a number of serious incidents have been managed in line with these plans.

Managing risk in hotels

Process and framework

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

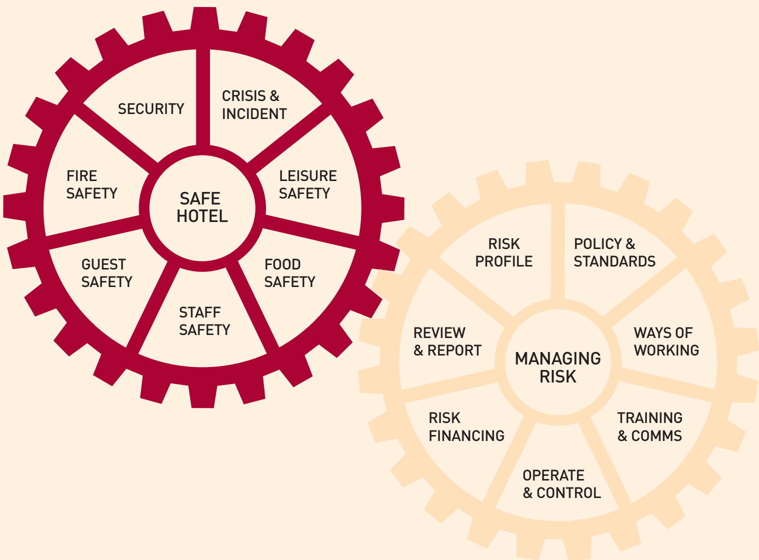
- safety and security of guests, employees and other third parties;
- brand strength supported by operational excellence in risk management at all hotels and corporate locations; and
- maintenance and promotion of the reputation of the Company.

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 Global Risk Management function aims to share specialist knowledge and capability globally whilst being aligned to the operational structure of the business to ensure local circumstances are understood and respected and greater engagement of our people is achieved.

Safety and security risks in hotels

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



Hotel safety framework

The red wheel illustrates the groups of risks identified and actively managed by IHG's risk managers around the world. They work with hotels and their management teams in order to minimise such risks and keep hotels safe and secure.

As a result of our holistic approach to risk, we are able to maintain and develop risk management strategies to assess and control individual types of risk. This has involved developing policies, standards and guidelines, raising awareness levels, training staff on controls and systems to be used to manage and mitigate risk and reviewing and reporting upon progress and emerging risk. These management activities are represented by the right hand wheel.

Mitigating hotel safety and security risks

Risks are identified at hotel level through various means including intelligence gathering, quality audits, risk management assessments and internal audits. They are also identified as a result of incidents, customer audits and self-assessment. Hotel management discuss issues at monthly safety meetings and action plans are developed. Risks are prioritised, assigned and improvement actions are identified, progressed and monitored. Action plans are reviewed at appropriate levels in the organisation for issues that need to be escalated either to drive action or to develop common solutions.

IHG believes it has a mature and capable systemic and systematic approach to managing hotel safety and security which both reduces the likelihood and impact of events. The embedded culture within IHG makes hotels and the corporation more resilient to unexpected or unidentifiable risks.

Major risks to the business

The Board is ultimately responsible for the Group's strategy, risk management and system of internal control, and for reviewing their effectiveness. In order to discharge this responsibility, in 2009 and early 2010 the Board considered the 2009 Major Risk Review developed as described above.

Business review continued

2010 risk factors

The Group is subject to a variety of risks which may have an adverse impact on the business, results of operations, cash flow, financial condition, turnover, profits, assets, liquidity and capital reserves. The following section describes some of the main 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 117.

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.

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 franchise and management 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 franchise and management agreements

The Group's growth strategy depends on its success in identifying, securing and retaining franchise and management 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 franchise, management and investment opportunities offered to the Group and increase the bargaining power of property owners seeking to become a franchisee or engage a manager. The terms of new franchise or management 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 franchise or management 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. This may result in deterioration of results of operations and potentially reducing the value of properties in affected economies. The owners or potential owners of hotels franchised or managed by one group face similar risks which could adversely impact IHG's ability to retain and secure franchise or management 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 inherent 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.
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, or fails to comply with regulatory requirements, in a number of areas such as safety and security, sustainability, responsible tourism, environmental management, human rights and support for the local community.

Business review continued

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 completed review was as at 31 March 2006, and the formal review as at 31 March 2009 is required to be completed by 30 June 2010.

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 2009, and the structure of senior executives' pay for 2010.

Holiday Inn, Dominican Republic

The Board of Directors

David Webster

Non-Executive Chairman*
Chairman of the Nomination Committee
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. Age 65.

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 54.

Richard Solomons

Chief Financial Officer and Head of Commercial Development†
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. Responsible for corporate and regional finance, Group financial control, strategy, investor relations, tax, treasury, commercial development and procurement. Age 48.

David Kappler

Senior Independent Non-Executive Director#
Chairman of the Audit Committee
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. Also served as a Non-Executive Director of Camelot Group plc and HMV Group plc. A member of the President's Committee of the CBI and a member of the Trilantic Europe Advisory Council. Age 62.

Graham Allan

Non-Executive Director∞
Appointed a Director in January 2010. President of Yum! Restaurants International (YRI), a subsidiary of Yum! Brands, Inc., since 2003. Previously Executive Vice President and Chief Operating Officer of YRI and Managing Director of YRI in Europe. Has over 18 years' experience in brand management, marketing, franchising and retail development. Age 54.

Ralph Kugler

Non-Executive Director°
Chairman of the Remuneration Committee
Appointed a Director in April 2003. Chairman of Byotrol plc, a hygiene technology company, Chairman of Gorkana Limited, a public relations and communications company and Senior Advisor to 3i PLC. Was previously President, Unilever Home and Personal Care, and served on the boards of Unilever PLC and Unilever N.V. until May 2008. Age 53.

Jennifer Laing

Non-Executive Director•
Chairman of the Corporate Responsibility Committee
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. Also a Non-Executive Director of Hudson Highland Group Inc., a US human resources company. Age 62.

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 Modern Bank, N.A., a US private banking company. Also serves on a number of US Councils and advisory boards. Age 66.

Ying Yeh

Non-Executive Director‡
Appointed a Director in December 2007. Vice President and Chairman, Greater China Region, Nalco Company, a water treatment and process improvement company. Previously 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. Was, for 15 years, a diplomat with the US Foreign Service in Hong Kong and Beijing until 1997. Age 61.

Other members of the Executive Committee

Jim Abrahamson

President, The Americas†§
Has over 31 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 of 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. Age 54.

Tom Conophy

Executive Vice President and Chief Information Officer†§
Has over 29 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. Age 49.

Kirk Kinsell

President, EMEA†§
Has over 27 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. Age 55.

Tracy Robbins

Executive Vice President, Global Human Resources†§
Has over 24 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 46.

Tom Seddon

Executive Vice President and Chief Marketing Officer†§
Has over 17 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. Age 41.

George Turner

Executive Vice President, General Counsel and Company Secretary†§
Solicitor, qualified to private practice in 1995. After 12 years with Imperial Chemical Industries PLC, where he was most recently Deputy Company Secretary, he joined the Group in September 2008. Appointed Executive Vice President, General Counsel and Company Secretary in January 2009. Responsible for corporate governance, risk management, insurance, data privacy, internal audit, company secretariat and legal. Age 39.

The Board of Directors and 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 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 Audit, Remuneration, Nomination and Corporate Responsibility Committees

• An independent Non-Executive Director and a member of the Audit, Nomination and Corporate Responsibility 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 2009.

Certain information required for disclosure in this report is provided in other appropriate sections of the Annual Report and Financial Statements 2009. These include the Business Review, the Corporate Governance and Remuneration Reports and the Group financial statements, and these are, accordingly, incorporated into this report by reference.

Activities of the Group

The principal activities of the Group are in hotels and resorts, with franchising, management, ownership and leasehold interests in over 4,400 establishments, with almost 650,000 guest rooms in over 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 3 to 5, and the Business Review on pages 8 to 34. Taken together, these provide a fair review of the Group's strategy and business, significant developments during the year 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.

Results and dividends

The operating profit before exceptional items was $363m: the Group's income statement is set out on page 60 of the Group financial statements. An interim dividend of 7.3p per share (12.2 cents per ADR) was paid on 2 October 2009. The Directors are recommending a final dividend of 18.7p per share (29.2 cents per ADR) to be paid on 4 June 2010 to shareholders on the Register of Members at the close of business on 26 March 2010. Total dividends relating to the year are expected to amount to $119m.

Share capital

During the year, 1,423,874 new shares were issued under employee share plans. The Company's issued share capital at 31 December 2009 consisted of 286,976,067 ordinary shares of 13 29⁄47p each. There are no special control rights or restrictions on transfer attaching to these ordinary shares.

IHG operates an Employee Share Option Trust (ESOT) for the benefit of employees and former employees. The ESOT purchases shares in the market and releases them to current and former employees in satisfaction of share awards. During the year, the ESOT released 3,058,848 shares and at 31 December 2009 it held 283,895 shares in the Company. The ESOT adopts a prudent approach to purchasing shares, using funds provided by the Group, based on expectations of future requirements.

No awards or grants over shares were made during 2009 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 up to 2005 are yet to be exercised and will be settled with the issue of new shares.

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

Share repurchases

During 2009, the Company continued to defer the remaining £30m of its £150m share repurchase programme in order to preserve cash and maintain the strength of IHG's balance sheet.

No shares were purchased or cancelled under the authority granted by shareholders at the Annual General Meeting held on 29 May 2009. The share buyback authority remains in force until the Annual General Meeting in 2010, and a resolution to renew the authority will be put to shareholders at that Meeting.

Substantial shareholdings

As at 15 February 2010, the Company had been notified, in accordance with the Disclosure and Transparency Rules of the UK Financial Services Authority, of the following significant holdings representing 3% or more of its issued share capital:

Ellerman Corporation Limited	10.00%	Direct interest
FIL Limited	5.14%	Direct interest
BlackRock, Inc.	5.11%	Indirect interest
Cedar Rock Capital Limited	5.07%	Direct interest
Legal & General Group Plc	3.96%	Direct interest
Lloyds Banking Group plc	3.84%	Direct and indirect interest
Longleaf Partners Fund	3.74%	Direct interest

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 2009 InterContinental Hotels Group PLC ordinary shares[1]
Executive Directors	
Andrew Cosslett	419,927
Richard Solomons	322,743
Non-Executive Directors	
David Kappler	1,400
Ralph Kugler	1,169
Jennifer Laing	3,373
Jonathan Linen	7,343[2]
David Webster	34,117
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 55 and 56.

2 Held in the form of American Depositary Receipts.

Subject to the Company's 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 7,556 people worldwide during 2009, whose costs are borne by the Group. When the whole IHG estate is taken into account (including staff working in the franchised and managed hotels) approximately 335,000 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 22 to 25 of the Business Review.

Charitable donations

During the year, the Group donated $813,900 in support of community initiatives and charitable causes. In addition to this contribution IHG employees are encouraged to give their time and skills to a variety of causes and they, as well as IHG guests, also made donations both in cash and in kind during 2009. Taking all these contributions into account, total donations in 2009 are estimated at $1,675,000.

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 21 of the Business Review and in notes 22 and 23 to the Group financial statements on pages 89 to 92.

A number of IHG's financing 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 apply standard payment terms which are considered reasonable, transparent and consistent with prevailing commercial practices. These are agreed with suppliers and payments are contingent on goods or services being supplied to the required standard.

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, 28 May 2010 is contained in a circular sent to shareholders at the same time as this Report.

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 32 to 34 in the Business Review but, in particular over the relatively short term, the main risks are falling consumer demand, restrictions on the availability of finance for hotel owners and a fall in the pace of new room openings. As highlighted in note 21 to the Group financial statements on pages 88 and 89, the Group refinanced its debt in May 2008 and issued a £250m seven-year bond in December 2009 which was used to replace most of the $500m bank facility that expires in November 2010. At the end of 2009, the Group was trading significantly within its banking covenants and debt facility.

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.

By order of the Board

George Turner
Company Secretary
15 February 2010

Corporate governance

2009 saw an increased focus on corporate governance by external regulators in the wake of the global economic recession and perceived shortfalls in governance standards in the financial services sector.

Although not directly affected by the proposals arising from the Walker Review of Corporate Governance of UK Banking Industry, IHG takes its corporate governance responsibilities seriously and aims to implement and uphold robust and responsible business processes and policies throughout the Group. The Board continues to observe recommendations arising from current regulatory scrutiny and aims to implement any relevant changes proposed by the Financial Reporting Council following their review of the Combined Code on Corporate Governance (Combined Code).

This section of the Annual Report describes IHG's approach towards control, risk management and compliance in accordance with current regulatory standards.

Combined Code compliance

The Board is committed to compliance with the principles set out in the Combined Code, available at www.frc.org.uk, and considers that the Company has complied with the Combined Code's requirements throughout the year ended 31 December 2009.

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.ihgplc.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 Combined Code, including clear operating procedures, lines of responsibility and delegated authorities.

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 Global Risk Management, the Head of Global Internal Audit, and, as appropriate, 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, Global 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 2009. 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, the key financial controls across all our business units have been identified and evaluated. This has enabled appropriate representations regarding the effectiveness of internal financial controls to be made in the Company's Annual Report on Form 20-F, 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. Whilst the insurance market has eased in some areas, certain risks 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. The key risk factors that could affect the Group are set out in the Business Review on pages 32 to 34.

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 six Non-Executive Directors meets the requirement of the Combined Code for at least half the Board, excluding the Chairman, to be independent Non-Executive Directors. In the Board's view, all of the current Non-Executive Directors are independent.

The Board is responsible to the shareholders for the strategic direction, development, 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 at www.ihgplc.com/investors under corporate governance/main board and executive committee.

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

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

Directors of the Company during 2009 were:

	Position	Date of original appointment[1]
David Webster	Non-Executive Chairman	15.4.03
Andrew Cosslett	Chief Executive	3.2.05
Richard Solomons	Chief Financial Officer and Head of Commercial Development	10.2.03
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
Jonathan Linen	Non-Executive Director	1.12.05
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.

Current Directors' biographical details are set out on page 36 of this Annual 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. Graham Allan, as a Non-Executive Director appointed on 1 January 2010, has been invited to participate in such a programme. Comprehensive induction programmes are also put in place for any Executive Director who may join the Group. These induction programmes accord with the best practice guidelines. 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 2009, eight Board meetings were held. These were attended by all Directors with the exception of Jonathan Linen who could not attend one meeting due to illness. Despite being unable to attend, he was provided with all the papers and information relevant to that meeting and was able to discuss matters arising with the Chairman and the Chief Executive.

All Directors are briefed by means of comprehensive papers in advance of Board meetings and by presentations at meetings. Their understanding of the Group's operations is enhanced by regular business presentations outside Board meetings and visits to the regions.

The Company's Articles of Association were amended with effect from 1 October 2008 to allow the Directors to authorise conflicts and potential conflicts of interest, where appropriate. The Board continues to have conflicts of interest as a standing agenda item at each meeting and asked each of the Directors to identify any conflicts or potential conflicts by returning a questionnaire to the Company Secretary during 2009. The Board considered all the responses to the questionnaire at a meeting of the full Board and approved those potential conflicts it considered appropriate.

Corporate governance continued

Performance evaluations of the Board and the Directors were undertaken for 2009. An independent third-party facilitator assists in the performance evaluation in alternate years. The 2009 evaluation involved such external assistance.

The 2009 Board evaluation, including that of the Chairman and the Executive Directors, involved completion of questionnaires and the Chairman having discussions with each Director individually.

The Board received feedback through a presentation at a meeting of the full Board, and the findings were discussed. It was concluded that the Board was operating in an effective manner and areas where more emphasis could be considered were identified and tabled for further action.

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, a member of the Appeals Committee of the Panel on Takeovers and Mergers, and 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 and following the reorganisation of the Asia Pacific region in June 2009 has overall responsibility for the region. 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 six such Directors, in addition to the Non-Executive Chairman, each of whom has significant external commercial experience. The Non-Executive Directors, including the Chairman, meet during the year to consider the Group's business and management.

Non-Executive Directors have the opportunity of continuing professional development during the year and of gaining further insight into the Group's business. In addition, the training requirements of the Non-Executive Directors are kept under review. During 2009 visits to operating premises were undertaken as part of this ongoing development process.

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.

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 2009 the other Committee members were Ralph Kugler and Jennifer Laing. The Committee is scheduled to meet at least three times a year. The Committee met five times in 2009: these meetings were attended by all Committee members. The Audit Committee's role is described on page 45.

Remuneration Committee

The Remuneration Committee, chaired by Ralph Kugler, also comprises the following Non-Executive Directors: David Kappler, Jonathan Linen and Ying Yeh. It meets at least twice a year. The Committee met four times during 2009: these meetings were attended by all Committee members. The Remuneration Committee's role is described on page 47.

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 and did so in connection with the appointment of Graham Allan. 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. It meets at least twice a year. The Committee met three times during 2009: these meetings were attended by the Chairman and all the Non-Executive Directors.

Corporate Responsibility Committee

The Corporate Responsibility Committee, chaired by Jennifer Laing, was established in February 2009. The other Committee member is Ralph Kugler. Meetings are regularly attended by other members of the Board and Executive Committee. The Committee is scheduled to meet at least twice a year. The Committee met twice in 2009: these meetings were attended by both Committee members. The Corporate Responsibility Committee's role is described on page 26.

A summary of each Director's attendance at the Board and its principal Committee meetings during 2009 is provided in the table below:

		Board	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Responsibility Committee
David Webster	Chairman	8	n/a	n/a	3	n/a
Andrew Cosslett	Executive Director	8	n/a	n/a	n/a	n/a
Richard Solomons	Executive Director	8	n/a	n/a	n/a	n/a
David Kappler	Non-Executive Director	8	5	4	3	n/a
Ralph Kugler	Non-Executive Director	8	5	4	3	2
Jennifer Laing	Non-Executive Director	8	5	n/a	3	2
Jonathan Linen	Non-Executive Director	7	n/a	4	3	n/a
Ying Yeh	Non-Executive Director	8	n/a	4	3	n/a
Total meetings held		**8**	**5**	**4**	**3**	**2**

Executive Committee

The Executive Committee is chaired by the Chief Executive. It consists of the Executive Directors and the most senior executives from the Group 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.

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 Chief Financial Officer 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.

Corporate governance continued

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.

Graham Allan, having been appointed as a Director since the last Annual General Meeting, will retire and stand for election at the Annual General Meeting on 28 May 2010.

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 2010, two Directors fall into this category. Therefore, Ralph Kugler and David Webster will retire by rotation and offer themselves for re-election at the Annual General Meeting.

The Notice of Annual General Meeting, sent to shareholders at the same time as this Report, provides further information about the Directors standing for election and re-election. Information on Executive Directors' service contracts is set out on page 53. The Non-Executive Chairman and the six independent Non-Executive Directors have letters of appointment.

Independent advice

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

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 Chief Financial Officer 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.ihgplc.com/investors under financial library.

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. Information about the Group is maintained and available to shareholders through the Company's 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.

Information on share capital and substantial shareholdings in the Company is set out on page 38 of the Directors' Report.

Further information

The terms of reference of all of 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.ihgplc.com/investors under corporate governance/committees or from the Company Secretary's office on request.

The Articles of Association of the Company are available on the Company's website www.ihgplc.com/investors under corporate governance.

George Turner
Company Secretary
15 February 2010

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 www.ihgplc.com/investors under corporate governance or on request.

The Committee's composition, and the attendance of its members in 2009, are set out on page 43.

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, Compliance and Risk Committee of Shire plc.

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 Global 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 Global Internal Audit, or Group management, after consideration of the major risks to the Group or in response to developing issues. The Chief Financial Officer attends its meetings, as do the external auditor and the Head of Global 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. There is adequate time between this review and the Board's approval to complete any actions or further work requested by the Committee;
- 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 Global Internal Audit plan, Global Internal Audit'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 Global 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 Global Risk Management on the activities of that function;
- consideration of the results of the Group's tangible asset impairment review and going concern 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, including related policies and initiatives;
- the impact on IHG of the continued volatility and risk aversion in the financial markets;
- consideration of the Group's technology strategy and related risks;
- 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
15 February 2010

Remuneration report

Dear Shareholder

I am pleased to present the Directors' Remuneration Report for 2009. This year, we have made changes to the layout of the Remuneration Report to enhance the clarity of disclosure, and to make it easier to read and understand.

Market conditions during 2009 were highly challenging in the hospitality industry due to the economic recession globally, with considerable pressure on both revenue per available room (RevPAR) and costs. Management took a number of measures to increase competitiveness in these difficult conditions, including a significant cost savings programme and the restructuring of the Asia Pacific region. These initiatives involved streamlining parts of the global organisation, discretionary cost control, improved effectiveness, and greater use of IHG's scale to achieve purchasing savings.

The Remuneration Committee has focused on ensuring that the remuneration arrangements for senior executives support these initiatives, as well as 2010 goals and long-term value creation. It is also important that remuneration structures for senior executives appropriately reflect the cost control and efficiency principles that are being implemented throughout the business.

Several changes were made to the remuneration approach in 2009 to reflect the tougher conditions:

- there was no general salary increase;
- the weighting of earnings before interest and tax (EBIT) in the Annual Bonus Plan (ABP) was increased to 70%. It was also decided that there would be no annual bonus payment for performance below 85% of the EBIT target;
- the maximum potential award for the earnings per share (EPS) element in the Long Term Incentive Plan (LTIP) was halved, and the total maximum LTIP award was reduced by 25%;
- the LTIP rules were amended to enable the Remuneration Committee to exercise its discretion to reduce vesting, should results not be consistent with the underlying quality of business performance; and
- the Non-Executive Directors received no increase in their fees.

The Remuneration Committee is focused on maintaining robust links between performance and reward. Results against key performance indicators for 2009 included:

2009 Key performance indicators (per annum)

EBIT growth	–34%
RevPAR growth	–14.7%
Employee engagement growth	+1%
Three-year TSR growth (annualised)	–8.7%
Three-year adjusted EPS growth (annualised)	+15.2%

As 85% of the EBIT target was not achieved, no annual bonus is to be paid for the financial year ended 31 December 2009. However, strong performance over the longer term is reflected by the outcome of the 2007/2009 LTIP award. Vesting of 46% was achieved due to competitively high relative total shareholder return (TSR) and earnings performance of IHG over the previous three-year period.

Following extensive consultation with key institutional shareholders, no major adjustments to the current remuneration framework are proposed for 2010. However, in 2010, in light of the continued challenging market conditions:

- the maximum bonus opportunity for the Executive Directors will be capped at 175% of base salary (reduced from 230% to 200% in 2008 and 2009 respectively);
- the EBIT target for maximum bonus achievement will be increased to 120% of budget (previously 110%); and
- the reduced LTIP grant levels, introduced in 2009, will be maintained for the 2010 awards.

During 2009, the Committee had intended to perform a full review of IHG's executive incentive arrangements. However, due to the continuing uncertainty of external market conditions, and following the consultative discussions with institutional shareholders, it was felt appropriate to defer this review until 2010.

Ralph Kugler
Chairman of the Remuneration Committee
15 February 2010

Introduction

This report sets out the remuneration policy for the Company's Directors, describes its implementation, and sets out the amounts paid in 2009. It has been prepared by the Remuneration Committee and has been approved by the Board. It complies with the Companies Act 2006 and related regulations. This report will be put to shareholders for approval at the forthcoming Annual General Meeting.

The report includes the following:

1 The Remuneration Committee

The independent Non-Executive Directors who served on the Committee during the year were as follows:

	Role	Meetings attended in 2009	Date of appointment to Committee
Ralph Kugler*	Chairman	4 out of 4	1 June 2008
David Kappler	Member	4 out of 4	21 June 2004
Jonathan Linen	Member	4 out of 4	1 December 2005
Ying Yeh	Member	4 out of 4	1 December 2007

* Ralph Kugler was previously a member of the Remuneration Committee from 2003 to 2005.

Committee meetings are also regularly attended by the following individuals who provide advice 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.

The Committee's remit is set out in its terms of reference which were updated by the Board in December 2009. 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. In addition, PwC 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 Watson provided advice on reward structures and levels applicable in the markets relevant to the Group. Towers Watson did not provide any other services to the Group during 2009; and
- Linklaters LLP provided other legal services to the Group throughout 2009.

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

The Committee meets several times a year to discuss matters relating to the operation of the remuneration policy and emerging market practices. In 2009, the Committee met four times and discussed, amongst others, the following matters:

Meeting	Agenda items discussed
12 February 2009	• 2008 Annual Performance Review • 2008 Annual Bonus Plan awards • 2006/2008 Long Term Incentive Plan results and awards • 2009 Annual Bonus Plan design • 2009/2011 Long Term Incentive Plan design • 2009 Executive Committee Key Performance Objectives (KPOs) • 2008 Remuneration Report • Remuneration Committee performance evaluation • 2009 salary freeze
7 May 2009	• Corporate staff and management remuneration • 2009 executive remuneration trends, including a review of market practice and latest developments • 2009 Executive Committee progress on KPOs
6 August 2009	• Update on executive remuneration trends • Long Term Incentive Plan incentive measure review, including alternative approaches to structure and targets • IHG pension plan arrangements
9 December 2009	• Non-Executive Chairman fees • 2010 merit and incentive structures • 2010 Executive Committee KPOs • Remuneration Committee terms of reference • Remuneration advisers' independence and costs

Remuneration report continued

2 Remuneration policy and structure

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 of the senior executive team and reward the achievement of business targets and key strategic objectives;
- align rewards of executives with returns to shareholders;
- support equitable treatment between members of the same executive team; and
- facilitate global assignments and relocation.

The Committee believes that it is important to reward management, including the Executive Directors, for targets achieved, provided those targets are stretching and aligned with shareholders' interests.

IHG's remuneration structure 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. Approximately two-thirds of variable reward is delivered in the form of shares, to enhance alignment with shareholders.

In reaching its decisions, the Committee takes into account a number of factors, including the relationship between remuneration and risk, strategic direction and affordability. 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 and Executive Committee members 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).

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 Company. Executive Directors are, therefore, permitted 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, in the reasonable opinion of the Board, likely to lead to a conflict of interest. Executive Directors are generally authorised to retain the fees received. Current Executive Directors hold no Non-Executive Directorships of other companies.

Summarised below are the individual elements of remuneration provided to Executive Directors and other Executive Committee members and the purpose of each element.

Element	Maximum value	Purpose and alignment with strategy
Base Salary (cash)	n/a	To recognise market value of role and the individual's skill, performance and experience
Annual Bonus (cash)	100% of base salary[1]	To drive and reward annual performance of individuals and teams on both financial and non-financial metrics, and to align employee objectives with those of the Group
Deferred Annual Bonus (shares)	100% of base salary[1]	To align short-term and long-term reward with returns to shareholders
Long Term Incentive Plan (shares)	205% of base salary[2]	To drive and reward delivery of sustained long-term EPS and TSR performance, aligned with the interests of shareholders
Pension and benefits (varied)	n/a	To provide a competitive level of benefits, providing short-term protection and long-term savings opportunities

1 Combined Annual Bonus award (cash and shares) is subject to a maximum cap of 175% of base salary in 2010.

2 Until 2009, maximum awards were normally granted at 270% of salary. In 2009 and 2010, maximum awards are 205% of base salary.

Variable compensation is based on objectives linked to the Company's strategy:

Measure	Alignment with strategy
Short Term:	
EBIT	• Provides focus on the core operating inputs influenced by management, namely rooms growth, RevPAR, and cost control
Individual Overall Performance Rating (OPR)	• Provides focus on key performance objectives and leadership competencies relative to the individual role
Long Term:	
EPS growth	• Ensures delivery of a growing profit base over the long term
TSR relative to Dow Jones World Hotels index	• Aligned with our goal to be the world's best hotel company

The OPR is linked to personal performance rating and key performance objectives (KPOs) linked to the corporate strategy:

Individual Performance Measures for OPR	Example KPOs
Financial returns	• Total gross revenue and system contribution revenue
Our people	• Annual employee engagement scores
Guest experience	• Relaunch of Holiday Inn • Global RevPAR growth and RevPAR growth ahead of market
Responsible business	• Tracking of reduced water, waste and energy consumption

The following table shows the split of fixed and variable compensation for the Executive Directors, assuming target performance is achieved (where applicable):

Director	Andrew Cosslett	Richard Solomons
Fixed pay	30%	30%
Short-term variable pay	35%	35%
Long-term variable pay	35%	35%

The Committee also reviews the balance of fixed and variable remuneration provided to the wider management population, to ensure these ratios are appropriate, given the relativities to the Executive Directors and to market practice.

3 Base salary and benefits

The salary for each Executive Director is reviewed annually and is based on both individual performance and on 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 – market capitalisation, turnover, profits and the number of people employed;
- diversity and complexity of business;
- geographical spread of business; and
- relevance to the hotel industry.

In reaching its decisions, the Committee also considers the remuneration levels and approaches provided to the wider IHG workforce.

Executive Directors' salaries are shown in the table below:

	2010 salary	2009 salary
Andrew Cosslett	**£826,000**	£802,000
Richard Solomons	**£523,000**	£510,000

4 Annual Bonus Plan (ABP)

Structure in 2009

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

The maximum bonus an Executive Director or Executive Committee member 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 compulsorily deferred in the form of shares for three years. No matching shares are awarded by the Company.

For 2009, awards under the ABP were linked to individual performance (30% of total award) and EBIT (70% of total award). In order to increase focus on cost savings and margins, net annual rooms additions was removed as an ABP performance measure for 2009 as outlined in last year's Report. 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.

The individual performance measures comprise several factors linked to strategic objectives, a selection of which is set out in the Individual Performance Measures for OPR and Example KPOs table on this page.

Remuneration report continued

Each year, specific quantitative targets against individual performance measures are set for each Executive Director and Executive Committee member, as relevant to their role. Performance against these measures is reviewed at the end of each year to determine bonus outcomes.

In 2009, under the financial measure (EBIT), threshold payout was 90% of target performance, with maximum payout at 110% or more of target. Payout for individual performance would be reduced by half if EBIT performance was below threshold. In addition, no annual bonus would be payable on any measure if EBIT performance was lower than 85% of target.

Outcomes in 2009

The following table shows the performance in 2009 against KPOs.

Measure	Key performance indicator	Payout as % of salary		
		Target	Max[2]	Actual
Financial (70%)	EBIT	80.5	161	Zero
Individual (30%)	OPR[1] – Andrew Cosslett	34.5	69	Zero
	OPR[1] – Richard Solomons	34.5	69	Zero

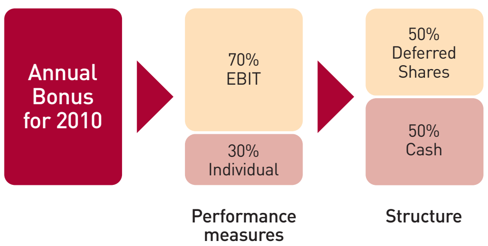
1 Overall Performance Rating for individual performance.

2 Combined EBIT and OPR payout, subject to a maximum of 200% of base salary.

Structure in 2010

The Annual Bonus structure remains largely unchanged in 2010 with awards under the ABP continuing to require the achievement of challenging performance goals before target bonus is payable.

A summary of the operation of the 2010 ABP is shown below.



However, reflecting the increased focus on cost control and the continued challenging market conditions, the maximum bonus opportunity for the Executive Directors will be capped at 175% of salary (previously 200%) for 2010 only. In addition, the stretch EBIT target for maximum bonus payment will be increased to 120% of budget for 2010, from 110% in previous years.

As with previous years, the achievement of target performance will result in a bonus of 115% of salary. Half of any bonus earned will be deferred in the form of shares for three years.

5 Long Term Incentive Plan (LTIP)

The LTIP allows Executive Directors and eligible management 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.

Structure for 2009/2011 cycle

Prior to 2009, awards to Executive Directors were normally made at the level of 270% of salary. In light of the cost-constrained environment in which IHG currently operates, awards for 2009 were made at 205% of salary.

The performance conditions for the cycle are:

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

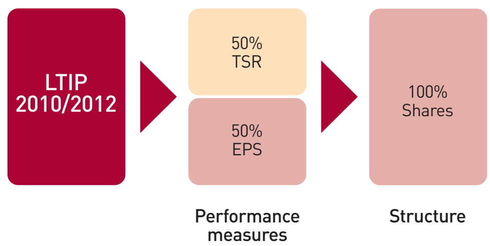
Awards under the LTIP lapse if performance conditions are not met – there is no re-testing.

Performance conditions for all outstanding awards are shown in the table on page 51.

Structure for 2010/2012 cycle

The LTIP structure remains relatively consistent for the 2010/2012 cycle, with the reduced award level for 2009 maintained. Performance conditions will remain TSR relative to the Dow Jones World Hotels index and growth in adjusted EPS over the period. However, these two measures will be equally weighted for this cycle.

A summary of the operation of the 2010/2012 LTIP cycle is shown below.



In setting the performance 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. The targets selected are shown in the table below.

Performance	% of award vesting	Required EPS growth	Required TSR relative to Dow Jones World Hotels index
Threshold	20%	5% pa	Match index
Maximum	100%	15% pa	Index + 8% pa

EPS performance henceforth will be measured on a constant tax rate across the cycle due to the impact that short-term fluctuations in tax rates have on vesting outcomes. Optimisation of tax rates remains a key area of focus for relevant management.

Outcomes in 2009 and progress on all current LTIP cycles

The specific vesting arrangements for all conditional LTIP awards made between 2007 and 2009 are set out in the following table:

Performance measure	Threshold performance	Maximum performance	Threshold[1] vesting	Maximum[1] vesting	Outcome/ current position
2007/2009 LTIP cycle					
TSR	5th place in relative comparator group	1st place in relative comparator group	20%	100%	4th place in relative comparator group
EPS	Growth of 10% pa	Growth of 20% pa or more	20%	100%	Growth of 15.2% pa
Total vesting					46% of maximum award
2008/2010 LTIP cycle[2]					
TSR	Growth equal to the index	Growth exceeds the index by 8% or more	20%	100%	Growth outperformance of 12.4%
EPS	Growth of 6% pa	Growth of 16% pa or more	20%	100%	Growth of 16.4% pa
2009/2011 LTIP cycle[3]					
TSR	Growth equal to the index	Growth exceeds the index by 8% or more	20%	100%	Growth outperformance of 17.2%
EPS	Growth of 0% pa	Growth of 10% pa or more	0%	100%	Growth of -1.4% pa

1 Vesting between threshold and maximum occurs on a straight-line basis.

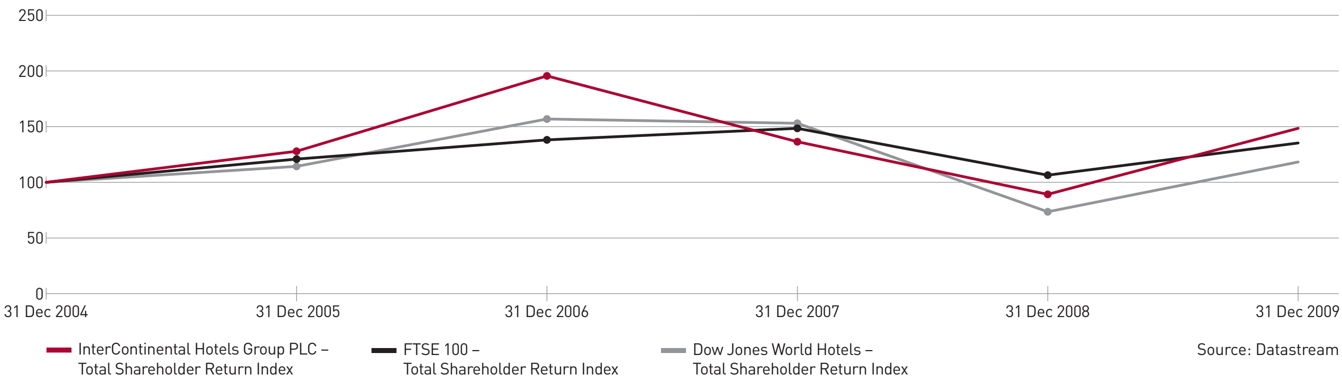
2 Two years of cycle completed.

3 One year of cycle completed.

6 Performance graph

Throughout 2009, the Company was a member of the FTSE 100 index and, for remuneration purposes, used a TSR comparator group of the Dow Jones World Hotels index. Accordingly, the Committee has determined that these are the most appropriate market indices against which to test the Company's performance. The graph below shows the TSR performance of IHG from 31 December 2004 to 31 December 2009, assuming dividends are reinvested, compared with the TSR performance achieved by the FTSE 100 index and the Dow Jones World Hotels index. IHG outperformed both indices over the period.

Total Shareholder Return: InterContinental Hotels Group PLC v FTSE 100 and v Dow Jones World Hotels index



Remuneration report continued

7 Shareholding policy

Share ownership

The Committee believes that share ownership by Executive Directors and senior executives strengthens the link between the individual's personal interests and those of the shareholders. Executive Directors are expected to hold twice their base salary in shares, or three times in the case of the Chief Executive. Executives are expected to hold all shares earned (net of any share sales required to meet personal tax liabilities) until their shareholding requirement is achieved.

Executive share options

Since 2006, executive share options have not formed part of the Company's remuneration structure. Details of prior share option grants are given on page 56.

Share capital

No awards or grants over shares were made during 2009 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 up to 2005 are yet to be exercised and will be settled with the issue of new shares.

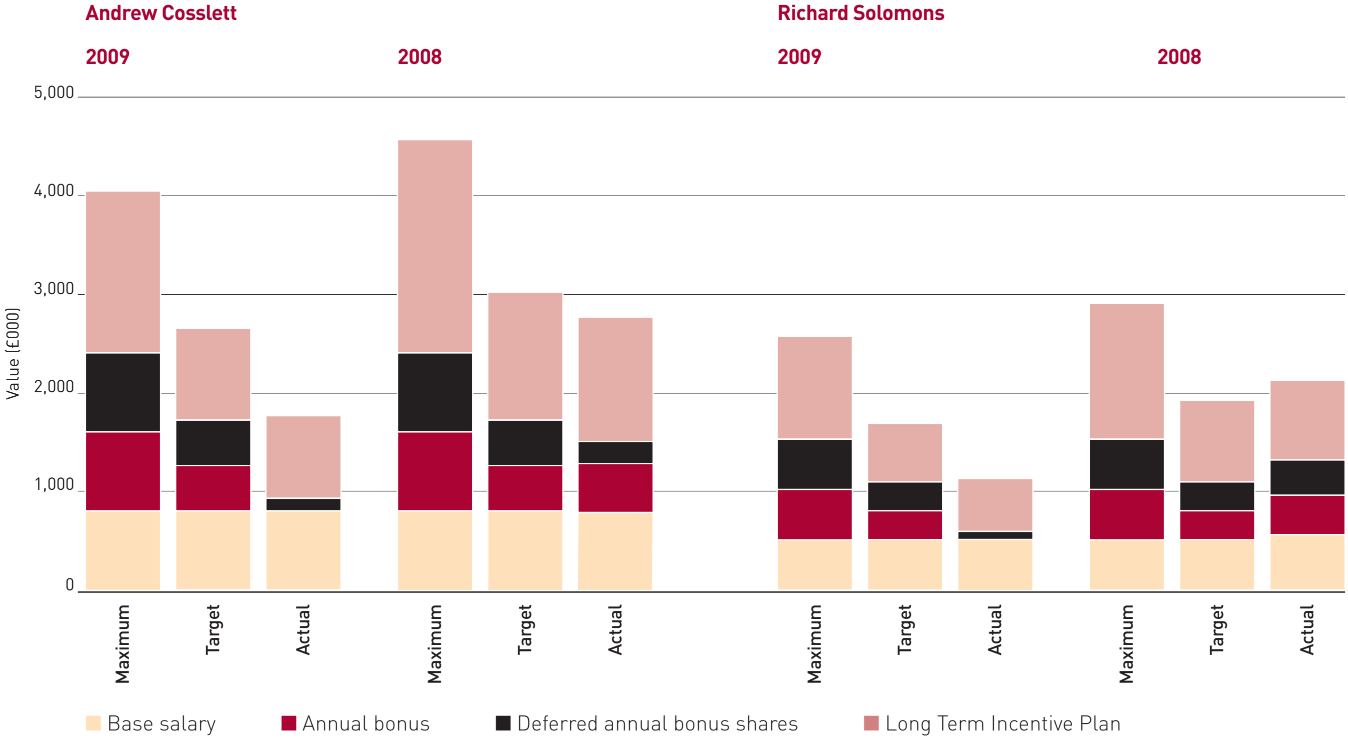
The following table shows the guideline and actual shareholdings of the Executive Directors.

Executive	Guideline shareholding as % of salary	Actual shareholding at 31 Dec 2009 as % of salary[1]
Andrew Cosslett	300	468
Richard Solomons	200	565

1 Based on share price of 893p per share as at 31 December 2009.

8 Total compensation

The charts below show the total value of the remuneration for Executive Directors at maximum and target performance levels and show the actual outcome for the year in question.



Notes:

- The Maximum and Target charts assume no share price change from grant.
- Actual base salary represents salary paid during the financial year.
- 2008 salaries shown under Maximum and Target reflect a salary increase effective 1 April 2008.
- Executive Directors did not receive a salary increase in 2009.
- Target LTIP is assumed to be halfway between threshold and maximum vesting.
- Actual values based on LTIP awards vesting and deferred annual bonus shares released in the year of reporting.
- Maximum and Target base salary is annual, as at 31 December in the year of reporting.

9 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 defined benefit 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. This Plan is now closed to new entrants.

Senior US-based executives participate in US retirement benefits plans. Executives outside the UK and US participate in the InterContinental Hotels Group International Savings and Retirement Plan or other local plans.

10 Non-Executive Directors' pay policy and structure

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. In February 2009, a Corporate Responsibility Committee was established. Jennifer Laing was appointed Chairman of this Committee on 1 March 2009. Her fee was consequently increased pro rata by £10,000 per annum in recognition of these additional duties.

In light of the challenging external environment and consistent with the Executive salary freeze in 2009, the scheduled review of Non-Executive Director fees was postponed by an additional year. Thus, Non-Executive Director fees were reviewed in the final quarter of 2009 and an increase of 2% for the Chairman and 5% for the Non-Executive Directors was agreed by the Board to be effective from 1 January 2010. Non-Executive Director fees were last increased in 2007.

Non-Executive Directors' fee levels have been typically reviewed every two years. In view of prevailing market practice, this has been moved to an annual review in 2010.

The following table sets out the change in annual fee rates from 2009 to 2010 for the Non-Executive Directors.

	Role	**Fees at 1 Jan 2010 £**	Fees at 31 Dec 2009 £
David Webster	Chairman	**398,000**	390,000
David Kappler	Senior Independent Director & Chairman of Audit Committee	**99,750**	95,000
Ralph Kugler	Chairman of Remuneration Committee	**84,000**	80,000
Jennifer Laing	Chairman of Corporate Responsibility Committee (from 1 March 2009)	**73,500**	70,000
Others	Non-Executive Director	**63,000**	60,000

11 Service contracts

a) Policy

The Remuneration 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 41.

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

Biographies of each of the Directors and their main responsibilities can be found on page 36.

b) Directors' contracts

	Contract effective date	Notice period
Andrew Cosslett	03.02.05	12 months
Richard Solomons	15.04.03	12 months

Both 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.

Remuneration report continued

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

12 Audited information on Directors' emoluments

Directors' remuneration in 2009

The following table sets out the remuneration paid or payable to the Directors in respect of the year to 31 December 2009.

	Base salaries and fees		Performance payments[1]		Benefits[2]		Total emoluments excluding pensions	
	2009 £000	2008 £000	**2009 £000**	2008 £000	**2009 £000**	2008 £000	**2009 £000**	2008 £000
Executive Directors								
Andrew Cosslett[3]	**802**	787	**–**	495	**25**	25	**827**	1,307
Stevan Porter[4]	**–**	503	**–**	593	**–**	5	**–**	1,101
Richard Solomons[3]	**512**	561	**–**	401	**19**	18	**531**	980
Non-Executive Directors								
David Webster	**390**	390	**–**	–	**–**	2	**390**	392
David Kappler	**95**	95	**–**	–	**–**	–	**95**	95
Ralph Kugler[5]	**80**	72	**–**	–	**–**	–	**80**	72
Jennifer Laing[6]	**68**	60	**–**	–	**–**	–	**68**	60
Robert C Larson[7]	**–**	60	**–**	–	**–**	–	**–**	60
Jonathan Linen	**60**	60	**–**	–	**–**	–	**60**	60
Sir David Prosser[8]	**–**	33	**–**	–	**–**	–	**–**	33
Ying Yeh	**60**	60	**–**	–	**–**	–	**60**	60
Former Directors[9]	**–**	–	**–**	–	**1**	1	**1**	1
Total	**2,067**	2,681	**–**	1,489	**45**	51	**2,112**	4,221

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 55.

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.

3 2008 salaries for Andrew Cosslett and Richard Solomons reflect a salary increase effective 1 April 2008. They did not receive an increase in 2009. Richard Solomons also received a pro rata salary supplement of £10,000 per month from 1 July 2008 to 7 January 2009, reflecting his additional duties as interim President of the Americas region.

4 Stevan Porter passed away on 7 August 2008.

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

6 Jennifer Laing's fee was increased, pro rata, from 1 March 2009 when she became Chairman of the Corporate Responsibility Committee.

7 Robert Larson retired as a Director on 31 December 2008.

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

9 Sir Ian Prosser retired as a Director on 31 December 2003. However, he had an ongoing healthcare benefit of £1,150 during the year.

Directors' pension benefits

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.

The following table sets out the pension benefits of the Executive Directors.

	Andrew Cosslett £	Richard Solomons £
Directors' contributions in the year[1]	39,400	25,100
Transfer value of accrued benefits at 1 January 2009	2,028,600	3,430,800
Transfer value of accrued benefits at 31 December 2009	**2,574,100**	**3,934,700**
Increase in transfer value over the year, less Directors' contributions	506,100	478,800
Absolute increase in accrued pension[2] (pa)	28,600	20,400
Increase in accrued pension[3] (pa)	28,600	20,400
Accrued pension at 31 December 2009[4] (pa)	131,200	217,700
Age at 31 December 2009	**54**	**48**

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 2009.

Annual Bonus Plan deferred share awards

Messrs Cosslett and Solomons participated in the ABP during the year ended 31 December 2009. However, no annual bonus is payable for this period. No matching shares are provided on awards. Directors' pre-tax share interests during the year were as follows.

Directors	Financial year on which performance is based for award	ABP awards held at 1 Jan 2009	ABP awards during the year 1 Jan 2009 to 31 Dec 2009	Award date	Market price per share at award	ABP shares vested during the year 1 Jan 2009 to 31 Dec 2009	Vesting date	Market price per share at vesting	Value at vesting £	ABP awards held at 31 Dec 2009	Planned vesting date	Value based on share price of 893p at 31 Dec 2009 £
Andrew Cosslett	2005	28,878[1]		8.3.06	853.67p	28,878	9.3.09	443.93p	128,198			
	2006	55,870[2]		26.2.07	1235p					55,870	26.2.10	498,919
	2007	71,287[3]		25.2.08	819.67p					71,287	25.2.11	636,593
	2008		104,652[4]	23.2.09	472.67p					104,652	23.2.12	934,542
Total		**156,035**	**104,652**							**231,809**		**2,070,054**
Richard Solomons	2005	18,459[1]		8.3.06	853.67p	18,459	9.3.09	443.93p	81,945			
	2006	35,757[2]		26.2.07	1235p					35,757	26.2.10	319,310
	2007	45,634[3]		25.2.08	819.67p					45,634	25.2.11	407,512
	2008		66,549[4]	23.2.09	472.67p					66,549	23.2.12	594,283
Total		**99,850**	**66,549**							**147,940**		**1,321,105**

1 This award was based on EPS, EBIT and individual performance measures. Total shares held include matching shares.

2 This award was based on EPS and EBIT measures. Total shares held include matching shares.

3 This award was based on Group EBIT and net annual rooms additions measures. Total shares held include matching shares.

4 This award was based on Group EBIT, net annual rooms additions and individual performance measures. The bonus target was 57.5% of base salary. Both Executive Directors were awarded 20.52% for Group EBIT performance, 10.97% for net annual rooms additions and 30.19% for individual performance, resulting in a total deferred shares bonus of 61.68% of base salary. No matching shares were awarded.

Remuneration report continued

Long Term Incentive Plan awards

The awards made in respect of cycles ending on 31 December 2008, 2009, 2010 and 2011 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 31 December 2008, 86.7% of the award vested on 18 February 2009. In respect of the cycle ending on 31 December 2009, the Company finished in fourth place in the TSR group and achieved 15.2% per annum adjusted EPS growth. Accordingly, 46% of the award will vest on 17 February 2010.

Directors	End of year to which performance is based for award (31 Dec)	Maximum LTIP awards held at 1 Jan 2009	Maximum LTIP shares awarded during the year 1 Jan 2009 to 31 Dec 2009	Award date	Market price per share at award	LTIP shares vested during the year 1 Jan 2009 to 31 Dec 2009	Market price per share at vesting	Value at vesting £	Actual/ planned vesting date	Maximum LTIP awards held at 31 Dec 2009	Maximum value based on share price of 893p at 31 Dec 2009 £
Andrew Cosslett	2008	200,740		3.4.06	941.5p	174,041[1]	481.25p	837,572	18.2.09		
	2009[2]	159,506		2.4.07	1256p				17.2.10	159,506	1,424,389
	2010[2]	253,559		19.5.08	854p				16.2.11	253,559	2,264,282
	2011[2]		272,201	3.4.09	604p				15.2.12	272,201	2,430,755
Total		**613,805**	**272,201**							**685,266**	**6,119,426**
Richard Solomons	2008	128,470		3.4.06	941.5p	111,383[1]	481.25p	536,031	18.2.09		
	2009[2]	102,109		2.4.07	1256p				17.2.10	102,109	911,833
	2010[2]	161,241		19.5.08	854p				16.2.11	161,241	1,439,882
	2011[2]		173,096	3.4.09	604p				15.2.12	173,096	1,545,747
Total		**391,820**	**173,096**							**436,446**	**3,897,462**

1 This award was based on performance to 31 December 2008 where the performance measure related to both the Company's TSR against a group of eight other comparator companies and cumulative annual growth rate (CAGR) of rooms in the IHG system relative to a group of eight other comparator companies. The number of shares released was graded, according to a) where the Company finished in the TSR comparator group, with 50% of the award being released for first or second position and 10% of the award being released for 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. The Company finished in third place in the TSR group and achieved a relative CAGR of 4.9%. Accordingly, 86.7% of the award vested on 18 February 2009.

2 All details of performance conditions in relation to these awards are provided in Section 5 of this report on page 51.

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.

Directors	Ordinary shares under option: Options held at 1 Jan 2009	Lapsed during the year	Exercised during the year	Share price on date of exercise	Options held at 31 Dec 2009	Weighted average option price	Option price
Andrew Cosslett	157,300[1]		157,300	901.89p			619.83p
Total	**157,300**		**157,300**				
Richard Solomons	230,320[2]				230,320[2]		494.17p
	100,550[1]				100,550[1]		619.83p
	3,769[3]		3,769	466.75p			420.50p
Total	**334,639**		**3,769**		**330,870**	**532.36p**	

1 Executive share options granted in 2005 became exercisable in April 2008 up to April 2015.

2 Executive share options granted in 2004 became exercisable in April 2007 up to April 2014.

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

Option prices during the year ranged from 420.50p to 619.83p per IHG share. The closing market value share price on 31 December 2009 was 893.00p and the range during the year was 446.00p to 903.50p per share.

The gain made by Directors in aggregate on the exercise of options during the year was £437,732 (2008 £nil).

This report was approved by the Board on 15 February 2010.

Ralph Kugler
Chairman of the Remuneration Committee

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 2009.

Group financial statements

Notes to the Group financial statements

Hotel Indigo, London Paddington, UK

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, the Remuneration 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.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

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 2006 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 as adopted by the European Union;
- 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, including the Directors' report, and the Group financial statements include a fair 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
15 February 2010

Richard Solomons
Chief Financial Officer
15 February 2010

Independent auditor's report to the members of InterContinental Hotels Group PLC

We have audited the Group financial statements of InterContinental Hotels Group PLC for the year ended 31 December 2009 which comprise the Group income statement, the Group statement of comprehensive income, the Group statement of changes in equity, the Group statement of financial position, the Group statement of cash flows, accounting policies and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Statements of Directors' responsibilities set out on page 58, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Corporate Governance statement set out on pages 40 to 44 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 58, in relation to going concern; and
- the part of the Corporate Governance statement, on pages 40 to 44, relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matters

We have reported separately on the parent company financial statements of InterContinental Hotels Group PLC for the year ended 31 December 2009 and on the information in the Remuneration Report that is described as having been audited.

Jonathan Adam Stanton (Senior statutory auditor)
for and on behalf of Emst & Young LLP, Statutory Auditor
London
15 February 2010

Group financial statements

Group income statement

For the year ended 31 December 2009	Note	2009 Before exceptional items $m	2009 Exceptional items (note 5) $m	2009 Total $m	2008 Before exceptional items $m	2008 Exceptional items (note 5) $m	2008 Total $m
Revenue	2	1,538	–	1,538	1,897	–	1,897
Cost of sales		(769)	(91)	(860)	(852)	–	(852)
Administrative expenses		(303)	(83)	(386)	(400)	(59)	(459)
Other operating income and expenses		6	(2)	4	14	25	39
		472	(176)	296	659	(34)	625
Depreciation and amortisation	2	(109)	–	(109)	(110)	(2)	(112)
Impairment	2	–	(197)	(197)	–	(96)	(96)
Operating (loss)/profit	2	363	(373)	(10)	549	(132)	417
Financial income	6	3	–	3	12	–	12
Financial expenses	6	(57)	–	(57)	(113)	–	(113)
(Loss)/profit before tax		309	(373)	(64)	448	(132)	316
Tax	7	(15)	287	272	(101)	42	(59)
Profit for the year from continuing operations		294	(86)	208	347	(90)	257
Profit for the year from discontinued operations	11	–	6	6	–	5	5
Profit for the year		294	(80)	214	347	(85)	262
Attributable to:							
Equity holders of the parent		293	(80)	213	347	(85)	262
Non-controlling interest		1	–	1	–	–	–
Earnings per ordinary share	9						
Continuing operations:							
Basic				72.6¢			89.5¢
Diluted				70.2¢			86.8¢
Adjusted		102.8¢			120.9¢		
Adjusted diluted		99.3¢			117.2¢		
Total operations:							
Basic				74.7¢			91.3¢
Diluted				72.2¢			88.5¢
Adjusted		102.8¢			120.9¢		
Adjusted diluted		99.3¢			117.2¢		

Notes on pages 65 to 104 form an integral part of these financial statements.

Group statement of comprehensive income

For the year ended 31 December 2009	2009 $m	2008 $m
Profit for the year	**214**	262
Other comprehensive income		
Available-for-sale financial assets:		
Gains/(losses) on valuation	**11**	(4)
Losses/(gains) reclassified to income on impairment/disposal	**4**	(17)
Cash flow hedges:		
Losses arising during the year	**(7)**	(14)
Reclassified to financial expenses	**11**	2
Defined benefit pension plans:		
Actuarial losses, net of related tax credit of $1m (2008 $13m)	**(57)**	(23)
Decrease/(increase) in asset restriction on plans in surplus	**21**	(14)
Exchange differences on retranslation of foreign operations, including related tax credit of $4m (2008 $1m)	**43**	(56)
Tax related to pension contributions	**–**	8
Other comprehensive income/(loss) for the year	**26**	(118)
Total comprehensive income for the year attributable to equity holders of the parent	**240**	144

Notes on pages 65 to 104 form an integral part of these financial statements.

Group financial statements continued

Group statement of changes in 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	Non-controlling interest $m	Total equity $m
At 1 January 2009	118	10	(49)	(2,890)	9	172	2,624	(6)	7	1
Total comprehensive income for the year	–	–	–	–	20	43	177	240	–	240
Issue of ordinary shares	11	–	–	–	–	–	–	11	–	11
Purchase of own shares by employee share trusts	–	–	(6)	–	–	–	–	(6)	–	(6)
Release of own shares by employee share trusts	–	–	55	–	–	–	(61)	(6)	–	(6)
Equity-settled share-based cost	–	–	–	–	–	–	24	24	–	24
Tax related to share schemes	–	–	–	–	–	–	10	10	–	10
Equity dividends paid	–	–	–	–	–	–	(118)	(118)	–	(118)
Exchange and other adjustments	13	1	(4)	(10)	–	–	–	–	–	–
At 31 December 2009	**142**	**11**	**(4)**	**(2,900)**	**29**	**215**	**2,656**	**149**	**7**	**156**

	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	Non-controlling interest $m	Total equity $m
At 1 January 2008	163	10	(83)	(2,918)	38	233	2,649	92	6	98
Total comprehensive income for the year	–	–	–	–	(29)	(61)	234	144	–	144
Issue of ordinary shares	2	–	–	–	–	–	–	2	–	2
Repurchase of shares	(3)	–	–	–	–	–	(136)	(139)	–	(139)
Transfer to capital redemption reserve	–	3	–	–	–	–	(3)	–	–	–
Purchase of own shares by employee share trusts	–	–	(24)	–	–	–	–	(24)	–	(24)
Release of own shares by employee share trusts	–	–	39	–	–	–	(53)	(14)	–	(14)
Equity-settled share-based cost	–	–	–	–	–	–	49	49	–	49
Tax related to share schemes	–	–	–	–	–	–	2	2	–	2
Equity dividends paid	–	–	–	–	–	–	(118)	(118)	–	(118)
Exchange and other adjustments	(44)	(3)	19	28	–	–	–	–	1	1
At 31 December 2008	118	10	(49)	(2,890)	9	172	2,624	(6)	7	1

Notes on pages 65 to 104 form an integral part of these financial statements.

Group statement of financial position

31 December 2009	Note	2009 $m	2008 $m
ASSETS			
Property, plant and equipment	10	**1,836**	1,684
Goodwill	12	**82**	143
Intangible assets	13	**274**	302
Investment in associates	14	**45**	43
Retirement benefit assets	25	**12**	40
Other financial assets	15	**130**	152
Deferred tax receivable	26	**95**	–
Total non-current assets		**2,474**	2,364
Inventories	16	**4**	4
Trade and other receivables	17	**335**	412
Current tax receivable		**35**	36
Cash and cash equivalents	18	**40**	82
Other financial assets	15	**5**	10
Total current assets		**419**	544
Non-current assets classified as held for sale	11	**–**	210
Total assets	2	**2,893**	3,118
LIABILITIES			
Loans and other borrowings	21	**(106)**	(21)
Trade and other payables	19	**(688)**	(746)
Provisions	20	**(65)**	–
Current tax payable		**(194)**	(374)
Total current liabilities		**(1,053)**	(1,141)
Loans and other borrowings	21	**(1,016)**	(1,334)
Retirement benefit obligations	25	**(142)**	(129)
Trade and other payables	19	**(408)**	(392)
Deferred tax payable	26	**(118)**	(117)
Total non-current liabilities		**(1,684)**	(1,972)
Liabilities classified as held for sale	11	**–**	(4)
Total liabilities	2	**(2,737)**	(3,117)
Net assets		**156**	1
EQUITY			
Equity share capital	28	**142**	118
Capital redemption reserve		**11**	10
Shares held by employee share trusts		**(4)**	(49)
Other reserves		**(2,900)**	(2,890)
Unrealised gains and losses reserve		**29**	9
Currency translation reserve		**215**	172
Retained earnings		**2,656**	2,624
IHG shareholders' equity		**149**	(6)
Non-controlling interest		**7**	7
Total equity		**156**	1

Signed on behalf of the Board

Richard Solomons
15 February 2010

Notes on pages 65 to 104 form an integral part of these financial statements.

Group financial statements continued

Group statement of cash flows

For the year ended 31 December 2009	2009 $m	2008 $m
Profit for the year	**214**	262
Adjustments for:		
Net financial expenses	**54**	101
Income tax (credit)/charge	**(272)**	59
Depreciation and amortisation	**109**	112
Impairment	**197**	96
Other exceptional operating items	**176**	34
Gain on disposal of assets, net of tax	**(6)**	(5)
Equity-settled share-based cost, net of payments	**14**	31
Other items	**1**	3
Operating cash flow before movements in working capital	**487**	693
Decrease in trade and other receivables	**58**	42
Increase in trade and other payables	**1**	81
Retirement benefit contributions, net of cost	**(2)**	(27)
Cash flows relating to exceptional operating items	**(60)**	(49)
Cash flow from operations	**484**	740
Interest paid	**(53)**	(112)
Interest received	**2**	12
Tax (paid)/received on operating activities	**(1)**	1
Net cash from operating activities	**432**	641
Cash flow from investing activities		
Purchases of property, plant and equipment	**(100)**	(53)
Purchases of intangible assets	**(33)**	(49)
Investment in associates and other financial assets	**(15)**	(6)
Disposal of assets, net of costs and cash disposed of	**20**	25
Proceeds from associates and other financial assets	**15**	61
Tax paid on disposals	**(1)**	(3)
Net cash from investing activities	**(114)**	(25)
Cash flow from financing activities		
Proceeds from the issue of share capital	**11**	2
Purchase of own shares	**–**	(139)
Purchase of own shares by employee share trusts	**(8)**	(22)
Proceeds on release of own shares by employee share trusts	**2**	2
Dividends paid to shareholders	**(118)**	(118)
Issue of £250m 6% bonds	**411**	–
Decrease in other borrowings	**(660)**	(316)
Net cash from financing activities	**(362)**	(591)
Net movement in cash and cash equivalents in the year	**(44)**	25
Cash and cash equivalents at beginning of the year	**82**	105
Exchange rate effects	**2**	(48)
Cash and cash equivalents at end of the year	**40**	82

Notes on pages 65 to 104 form an integral part of these 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 2009 were authorised for issue in accordance with a resolution of the Directors on 15 February 2010. 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 (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

Changes in accounting policies

With effect from 1 January 2009, the Group has implemented International Accounting Standard (IAS) 1 (Revised) 'Presentation of Financial Statements', IAS 23 (Revised) 'Borrowing Costs', Amendment to IFRS 2 'Share-based Payment: Vesting Conditions and Cancellations', Amendment to IFRS 7 'Financial Instruments: Disclosures', IFRS 8 'Operating Segments', International Financial Reporting Interpretations Committee Interpretation (IFRIC) 13 'Customer Loyalty Programmes' and IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'.

IAS 1 (Revised) 'Presentation of Financial Statements' has resulted in the introduction of the Group statement of changes in equity as a primary financial statement. The revised standard also introduces the Group statement of comprehensive income, presented either in a single statement or two linked statements. The Group has adopted the two statement approach.

IAS 23 (Revised) 'Borrowing Costs' requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset from 1 January 2009. The Group's previous policy was to expense all borrowing costs as incurred. In accordance with the transitional provisions of IAS 23, the revised standard has been adopted on a prospective basis and applied to projects commencing after 1 January 2009. No borrowing costs have been capitalised in the year.

Amendment to IFRS 2 'Share-based Payment: Vesting Conditions and Cancellations' clarifies the definitions of vesting conditions and prescribes the treatment for cancelled awards. The amendment has not impacted the Group's financial performance or position.

Amendment to IFRS 7 'Financial Instruments: Disclosures' requires additional disclosures about fair value measurement and liquidity risk. The additional and revised disclosures are presented in note 23.

IFRS 8 'Operating Segments' replaces IAS 14 'Segment Reporting'. The Group has concluded that the reportable segments determined in accordance with IFRS 8 are the same as the business segments previously reported under IAS 14. On adoption of IFRS 8, certain liabilities have been reclassified to Central functions as explained in note 2.

IFRIC 13 'Customer Loyalty Programmes' requires customer loyalty credits to be accounted for as a separate component of a sales transaction. The adoption of IFRIC 13 has not had a material impact on the financial statements.

IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' is applied prospectively from 1 January 2009 and has not impacted the effectiveness of the Group's net investment hedging arrangements.

There has been no requirement to restate prior year comparatives as a result of adopting any of the above.

Presentational currency

The consolidated financial statements are presented in millions of US dollars following a management decision to change the reporting currency from sterling during 2008. The change was made to reflect the profile of the Group's revenue and operating profit which are primarily generated in US dollars or US dollar-linked currencies.

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 last day of the period; 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 payment and receipt of interest on sterling denominated external borrowings and 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 on the last day of the period. 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 on the last day of the period. 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.

Accounting policies continued

Property, plant and equipment

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

Borrowing costs attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the asset cost. All other borrowing costs are expensed as incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Borrowing costs relating to assets where construction commenced on or after 1 January 2009 are capitalised. Borrowing costs relating to projects commencing before this date are expensed.

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.

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.

Management contracts

When assets are sold and a purchaser enters into a franchise or management 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.

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 of financial assets 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 period-end 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.

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 statement of cash flows, 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.

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.

An onerous contract provision is recognised when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

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 the transaction costs and any discount or premium on issue, are charged to the income statement using the effective interest rate method.

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

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 22. 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 expenses.

Interest arising from currency derivatives and interest rate swaps is taken to financial income or expenses on a net basis over the term of the agreement, unless the accounting treatment for the hedging relationship requires the interest to be taken to reserves.

Foreign exchange gains and losses on currency derivatives are recognised in financial income and expenses 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.

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 end of the reporting period.

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 the end of each reporting period.

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 end of the reporting period.

Accounting policies continued

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 period-end date is the amount of surplus or deficit recorded in the statement of financial position 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 comprehensive income.

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 end of the reporting period.

Revenue recognition

Revenue is the gross inflow of economic benefits received and receivable by the Group on its own account where those inflows result in increases in equity.

Revenue is derived from the following sources: franchise fees; management fees; owned and leased properties 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.

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.

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.

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.

Share-based payments

The cost of equity-settled transactions with employees is measured by reference to fair value at the date at which the right to the shares is 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 service 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 or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The Group has taken advantage of the transitional provisions of IFRS 2 'Share-based Payment' 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 sales proceeds and any 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.

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:

Trade receivables – a provision for impairment of trade receivables is made on the basis of historical experience and other factors considered relevant by management.

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.

System Funds – In addition to management or franchise fees, hotels within the IHG system pay cash assessments which are collected by IHG for specific use within the System Funds (the Funds). Under the governance of the IAHI, the Owners' Association, IHG operates the Funds on behalf of hotel owners with the objective of driving revenues for their hotels. The Funds are used to pay for marketing, the Priority Club loyalty programme and the global reservation system. The Funds are planned to operate at breakeven with any short-term timing surplus or deficit carried in the Group statement of financial position within working capital.

As all Fund assessments are designated for specific purposes and do not result in a profit or loss for the Group, the revenue recognition criteria as outlined in the accounting policy above are not met and therefore the revenue and expenses of the Funds are not included in the Group income statement.

The assets and liabilities relating to the Funds are included in the appropriate headings in the Group statement of financial position because the related legal, but not beneficial, rights and obligations rest with the Group. These assets and liabilities include the Priority Club Rewards liability, short-term timing surpluses and deficits and any receivables and payables related to the Funds.

Further information on the Funds is included in note 33.

Loyalty programme – The hotel loyalty programme, Priority Club Rewards, enables members to earn points, funded through hotel assessments, during each qualifying stay at an IHG branded hotel and redeem 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. Actuarial gains and losses on the future redemption liability are borne by the System Funds and any resulting changes in the liability would correspondingly adjust the amount of short-term timing differences held in the Group statement of financial position.

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.

Other – the Group also makes estimates and judgements in the valuation of franchise and management 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 2010
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
IAS 27R	Consolidated and Separate Financial Statements Effective from 1 July 2009
IAS 39	Financial Instruments: Recognition and Measurement (Amendment) Effective from 1 July 2009
IFRIC 17	Distribution of Non-cash Assets to Owners Effective from 1 July 2009

Note: the effective dates are in respect of accounting periods beginning on or after the date shown and so will be effective for the Group from 1 January 2010.

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=£0.64 (2008 $1=£0.55). In the case of the euro, the translation rate is $1=€0.72 (2008 $1=€0.68).

Assets and liabilities have been translated into US dollars at the rates of exchange on the last day of the period. In the case of sterling, the translation rate is $1=£0.62 (2008 $1=£0.69). In the case of the euro, the translation rate is $1=€0.69 (2008 $1=€0.71).

2 Segmental information

The management of the Group's operations, excluding Central functions, is organised within three geographical regions:

Americas;

Europe, Middle East and Africa (EMEA); and

Asia Pacific.

These, together with Central functions, comprise the Group's four reportable segments.

The Asia Pacific reportable segment comprises the aggregation of two operating segments, Greater China and Asia Australasia. 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. Central liabilities include the loyalty programme liability and the cumulative short-term System Fund surplus which were allocated to the geographical segments prior to the adoption of IFRS 8.

Each of the geographical regions derives its revenues from either franchising, managing or owning hotels and additional segmental disclosures are provided accordingly.

Management monitors the operating results of the geographical regions and Central functions separately for the purpose of making decisions about resource allocation and performance assessment. Segmental performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements, excluding exceptional items. Group financing and income taxes are managed on a group basis and are not allocated to reportable segments.

2 Segmental information continued

Year ended 31 December 2009	Americas $m	EMEA $m	Asia Pacific $m	Central $m	Group $m
Revenue					
Franchised	437	83	11	–	531
Managed	110	119	105	–	334
Owned and leased	225	195	129	–	549
Central	–	–	–	124	124
Total revenue*	**772**	**397**	**245**	**124**	**1,538**

	Americas $m	EMEA $m	Asia Pacific $m	Central $m	Group $m
Segmental result					
Franchised	364	60	5	–	429
Managed	(40)	65	44	–	69
Owned and leased	11	33	30	–	74
Regional and central	(47)	(31)	(27)	(104)	(209)
Reportable segments' operating profit	288	127	52	(104)	363
Exceptional operating items (note 5)	(301)	(22)	(7)	(43)	(373)
Operating loss*	**(13)**	**105**	**45**	**(147)**	**(10)**

	Continuing $m	Discontinued $m	Group $m
Reportable segments' operating profit	363	–	363
Exceptional operating items	(373)	–	(373)
Operating loss	**(10)**	**–**	**(10)**
Net finance costs	(54)	–	(54)
Loss before tax	(64)	–	(64)
Tax	272	–	272
Profit after tax	208	–	208
Gain on disposal of assets, net of tax	–	6	6
Profit for the year	**208**	**6**	**214**

* Relates to continuing operations.

Notes to the Group financial statements continued

2 Segmental information continued

Year ended 31 December 2009	Americas $m	EMEA $m	Asia Pacific $m	Central $m	Group $m
Assets and liabilities					
Segment assets	970	926	631	196	2,723
Unallocated assets:					
Deferred tax receivable					95
Current tax receivable					35
Cash and cash equivalents					40
Total assets					**2,893**
Segment liabilities	(417)	(236)	(63)	(567)	(1,283)
Unallocated liabilities:					
Current tax payable					(194)
Deferred tax payable					(118)
Loans and other borrowings					(1,122)
Derivatives					(20)
Total liabilities					**(2,737)**

	Americas $m	EMEA $m	Asia Pacific $m	Central $m	Group $m
Other segmental information					
Capital expenditure (see below)	80	5	14	37	136
Non-cash items:					
Onerous management contracts	91	–	–	–	91
Depreciation and amortisation*	33	29	28	19	109
Impairment losses	189	8	–	–	197

* Included in the $109m of depreciation and amortisation is $29m relating to administrative expenses and $80m relating to cost of sales.

Reconciliation of capital expenditure	Americas $m	EMEA $m	Asia Pacific $m	Central $m	Group $m
Capital expenditure per management reporting	**80**	**5**	**14**	**37**	**136**
Timing differences	(45)	1	1	–	(43)
Capital expenditure per the financial statements	**35**	**6**	**15**	**37**	**93**
Comprising additions to:					
Property, plant and equipment	29	6	9	13	57
Intangible assets	6	–	3	24	33
Investment in associates	–	–	3	–	3
	35	**6**	**15**	**37**	**93**

2 Segmental information continued

Year ended 31 December 2008	Americas $m	EMEA $m	Asia Pacific $m	Central $m	Group $m
Revenue					
Franchised	495	110	18	–	623
Managed	168	168	113	–	449
Owned and leased	300	240	159	–	699
Central	–	–	–	126	126
Total revenue*	**963**	**518**	**290**	**126**	**1,897**

	Americas $m	EMEA $m	Asia Pacific $m	Central $m	Group $m
Segmental result					
Franchised	426	75	8	–	509
Managed	51	95	55	–	201
Owned and leased	55	45	43	–	143
Regional and central	(67)	(44)	(38)	(155)	(304)
Reportable segments' operating profit	465	171	68	(155)	549
Exceptional operating items (note 5)	(99)	(21)	(2)	(10)	(132)
Operating profit*	**366**	**150**	**66**	**(165)**	**417**

	Continuing $m	Discontinued $m	Group $m
Reportable segments' operating profit	549	–	549
Exceptional operating items	(132)	–	(132)
Operating profit	**417**	**–**	**417**
Net finance costs	(101)	–	(101)
Profit before tax	316	–	316
Tax	(59)	–	(59)
Profit after tax	257	–	257
Gain on disposal of assets, net of tax	–	5	5
Profit for the year	**257**	**5**	**262**

* Relates to continuing operations.

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
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	(429)	(257)	(63)	(508)	(1,257)
Liabilities classified as held for sale	(4)	–	–	–	(4)
	(433)	(257)	(63)	(508)	(1,261)
Unallocated liabilities:					
Current tax payable					(374)
Deferred tax payable					(117)
Loans and other borrowings					(1,355)
Derivatives					(10)
Total liabilities					**(3,117)**

	Americas $m	EMEA $m	Asia Pacific $m	Central $m	Group $m
Other segmental information					
Capital expenditure (see below)	51	5	13	74	143
Non-cash items:					
Depreciation and amortisation*	31	35	26	20	112
Impairment losses	75	21	–	–	96

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

Central liabilities include the loyalty programme liability and the cumulative short-term System Fund surplus which were allocated to the geographical segments prior to the adoption of IFRS 8.

Reconciliation of capital expenditure	Americas $m	EMEA $m	Asia Pacific $m	Central $m	Group $m
Capital expenditure per management reporting	**51**	**5**	**13**	**74**	**143**
Timing differences	–	–	4	–	4
Exchange and other adjustments	(1)	(3)	(2)	2	(4)
Capital expenditure per the financial statements	**50**	**2**	**15**	**76**	**143**
Comprising additions to:					
Property, plant and equipment	43	2	10	36	91
Intangible assets	7	–	2	40	49
Investment in associates	–	–	3	–	3
	50	**2**	**15**	**76**	**143**

2 Segmental information continued

Geographical information	Year ended 31 December 2009 $m	Year ended 31 December 2008 $m
Revenue		
United Kingdom	**125**	173
United States	**678**	819
Rest of World	**735**	905
Total revenue per Group income statement	**1,538**	1,897

For the purposes of the above table, hotel revenue is determined according to the location of the hotel and other revenue is attributed to the country of origin. In addition to the United Kingdom, revenue relating to an individual country is separately disclosed when it represents 10% or more of total revenue.

	31 December 2009 $m	31 December 2008 $m
Non-current assets		
United Kingdom	**389**	363
United States	**805**	758
France	**376**	368
People's Republic of China	**354**	357
Rest of World	**313**	326
Total	**2,237**	2,172

For the purposes of the above table, non-current assets comprise property, plant and equipment, goodwill, intangible assets and investments in associates. Non-current assets relating to an individual country are separately disclosed when they represent 10% or more of total non-current assets, as defined above.

Notes to the Group financial statements continued

3 Staff costs and Directors' emoluments

	2009 $m	2008 $m
Staff		
Costs:		
Wages and salaries	441	549
Social security costs	45	55
Pension and other post-retirement benefits:		
Defined benefit plans (note 25)	12	8
Defined contribution plans	26	30
	524	642

	2009	2008
Average number of employees, including part-time employees:		
Americas	3,229	3,384
EMEA	1,712	1,824
Asia Pacific	1,410	1,470
Central	1,205	1,271
	7,556	7,949

The costs of the above employees are borne by IHG. In addition, the Group employs 4,561 (2008 4,353) people who work in managed hotels or directly on behalf of the System Funds and whose costs of $267m (2008 $272m) are borne by those hotels or by the Funds.

	2009 $m	2008 $m
Directors' emoluments		
Base salaries, fees, performance payments and benefits	3.3	7.8

More detailed information on the emoluments, pensions, option holdings and shareholdings for each Director is shown in the Remuneration report on pages 46 to 56.

4 Auditor's remuneration paid to Ernst & Young LLP

	2009 $m	2008 $m
Group audit fees	1.8	1.7
Audit fees in respect of subsidiaries	2.1	1.5
Tax fees	1.7	1.0
Interim review fees	0.3	0.4
Other services pursuant to legislation	0.3	0.1
Other	1.5	2.8
	7.7	7.5

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	2009 $m	2008 $m
Continuing operations			
Exceptional operating items:			
Cost of sales:			
Onerous management contracts	a	(91)	–
Administrative expenses:			
Holiday Inn brand relaunch	b	(19)	(35)
Reorganisation and related costs	c	(43)	(24)
Enhanced pension transfer	d	(21)	–
		(83)	(59)
Other operating income and expenses:			
Gain on sale of associate investments		–	13
Gain on sale of other financial assets		–	14
Loss on disposal of hotels (note 11)*		(2)	(2)
		(2)	25
Depreciation and amortisation:			
Reorganisation and related costs	c	–	(2)
Impairment:			
Property, plant and equipment (note 10)		(28)	(12)
Assets held for sale (note 11)		(45)	–
Goodwill (note 12)		(78)	(63)
Intangible assets (note 13)		(32)	(21)
Other financial assets (note 15)		(14)	–
		(197)	(96)
		(373)	(132)
Tax:			
Tax on exceptional operating items		112	17
Exceptional tax credit	e	175	25
		287	42
Discontinued operations			
Gain on disposal of assets (note 11):			
Gain on disposal of hotels**		2	–
Tax credit		4	5
	f	6	5

* 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 An onerous contract provision of $65m has been recognised for the future net unavoidable costs under a performance guarantee related to certain management contracts with one US hotel owner. In addition to the provision, a deposit of $26m has been written off as it is no longer considered recoverable under the terms of the same management contracts.

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

c Primarily relates to the closure of certain corporate offices together with severance costs arising from a review of the Group's cost base.

d Relates to 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 plan provider. The exceptional item comprises the lump sum payments ($9m), the IAS 19 settlement loss arising on the pension transfers ($11m) and the costs of the arrangement ($1m). The payments and transfers were made in January 2009.

e 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 (see note 7).

f Relates to tax arising on disposals together with the release of provisions no longer required in respect of hotels disposed of in prior years.

Notes to the Group financial statements continued

6 Finance costs

	2009 $m	2008 $m
Financial income		
Interest income	2	11
Fair value gains	1	1
	3	12
Financial expenses		
Interest expense	39	95
Finance charge payable under finance leases	18	18
	57	113

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 $2m (2008 $12m) payable to the Priority Club Rewards loyalty programme relating to interest on the accumulated balance of cash received in advance of the redemption of points awarded.

7 Tax

	Note	2009 $m	2008 $m
Income tax			
UK corporation tax at 28% (2008 28.5%):			
Current period		26	13
Adjustments in respect of prior periods		(33)	(28)
		(7)	(15)
Foreign tax:	a		
Current period		79	130
Benefit of tax reliefs on which no deferred tax previously recognised		(6)	(6)
Adjustments in respect of prior periods	b	(246)	(63)
		(173)	61
Total current tax		(180)	46
Deferred tax:			
Origination and reversal of temporary differences		(73)	26
Changes in tax rates		1	(1)
Adjustments to estimated recoverable deferred tax assets		1	(4)
Adjustments in respect of prior periods		(25)	(13)
Total deferred tax		(96)	8
Total income tax (credit)/charge for the year		(276)	54
Further analysed as tax relating to:			
Profit before exceptional items		15	101
Exceptional items (note 5):			
Exceptional operating items		(112)	(17)
Exceptional tax credit	c	(175)	(25)
Gain on disposal of assets		(4)	(5)
		(276)	54
The total tax (credit)/charge can be further analysed as relating to:			
Continuing operations		(272)	59
Discontinued operations – gain on disposal of assets		(4)	(5)
		(276)	54

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

b Includes $165m of exceptional releases included at note c below together with other releases relating to tax matters which have been settled or in respect of which the relevant statutory limitation period has expired.

c 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

	Total[a]		Before exceptional items[b]	
	2009 %	2008 %	2009 %	2008 %
Reconciliation of tax (credit)/charge, including gain on disposal of assets				
UK corporation tax at standard rate	**28.0**	28.5	**28.0**	28.5
Non-deductible expenditure and non-taxable income	**(36.5)**	8.7	**7.4**	6.1
Net effect of different rates of tax in overseas businesses	**(43.0)**	10.1	**8.7**	7.1
Effect of changes in tax rates	**(0.3)**	(0.2)	**0.1**	(0.1)
Benefit of tax reliefs on which no deferred tax previously recognised	**7.2**	(1.7)	**(1.5)**	(1.2)
Effect of adjustments to estimated recoverable deferred tax assets	**5.9**	(1.1)	**(1.2)**	(0.8)
Adjustment to tax charge in respect of prior periods	**185.5**	(23.5)	**(37.6)**	(16.6)
Other	**(3.8)**	(0.8)	**0.8**	(0.6)
Exceptional items and gain on disposal of assets	**298.3**	(2.9)	**–**	–
	441.3	17.1	**4.7**	22.4

a Calculated in relation to total losses/profits including exceptional items.

b Calculated in relation to profits excluding exceptional items.

Tax paid

Total net tax paid during the year of $2m (2008 $2m) comprises $1m paid (2008 $1m received) in respect of operating activities and $1m paid (2008 $3m) 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 Chief Financial Officer 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

	2009 cents per share	2008 cents per share	2009 $m	2008 $m
Paid during the year:				
Final (declared for previous year)	**29.2**	29.2	**83**	86
Interim	**12.2**	12.2	**35**	32
	41.4	41.4	**118**	118
Proposed (not recognised as a liability at 31 December):				
Final	**29.2**	29.2	**84**	83

The final dividend of 18.7p (29.2¢ converted at the closing exchange rate on 12 February 2010) is proposed for approval at the Annual General Meeting on 28 May 2010 and is payable on the shares in issue at 26 March 2010.

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.

	2009		2008	
	Continuing operations	Total	Continuing operations	Total
Basic earnings per ordinary share				
Profit available for equity holders ($m)	207	213	257	262
Basic weighted average number of ordinary shares (millions)	285	285	287	287
Basic earnings per ordinary share (cents)	72.6	74.7	89.5	91.3
Diluted earnings per ordinary share				
Profit available for equity holders ($m)	207	213	257	262
Diluted weighted average number of ordinary shares (millions)	295	295	296	296
Diluted earnings per ordinary share (cents)	70.2	72.2	86.8	88.5

	2009 millions	2008 millions
Diluted weighted average number of ordinary shares is calculated as:		
Basic weighted average number of ordinary shares	285	287
Dilutive potential ordinary shares – employee share options	10	9
	295	296

	2009		2008	
	Continuing operations	Total	Continuing operations	Total
Adjusted earnings per ordinary share				
Profit available for equity holders ($m)	207	213	257	262
Adjusting items (note 5):				
Exceptional operating items ($m)	373	373	132	132
Tax on exceptional operating items ($m)	(112)	(112)	(17)	(17)
Exceptional tax credit ($m)	(175)	(175)	(25)	(25)
Gain on disposal of assets, net of tax ($m)	–	(6)	–	(5)
Adjusted earnings ($m)	293	293	347	347
Basic weighted average number of ordinary shares (millions)	285	285	287	287
Adjusted earnings per ordinary share (cents)	102.8	102.8	120.9	120.9
Adjusted earnings ($m)	293	293	347	347
Diluted weighted average number of ordinary shares (millions)	295	295	296	296
Adjusted diluted earnings per ordinary share (cents)	99.3	99.3	117.2	117.2

10 Property, plant and equipment

	Note	Land and buildings $m	Fixtures, fittings and equipment $m	Total $m
Cost				
At 1 January 2008		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
Additions		22	35	57
Net transfers from non-current assets classified as held for sale		176	104	280
Reclassification		14	(14)	–
Disposals		–	(3)	(3)
Exchange and other adjustments		44	24	68
At 31 December 2009		**1,622**	**1,046**	**2,668**
Depreciation and impairment				
At 1 January 2008		(129)	(498)	(627)
Provided		(11)	(61)	(72)
Net transfers to non-current assets classified as held for sale		37	37	74
Impairment charge	a	(12)	–	(12)
On disposals		15	25	40
Exchange and other adjustments		–	15	15
At 31 December 2008		(100)	(482)	(582)
Provided		(11)	(60)	(71)
Net transfers from non-current assets classified as held for sale		(44)	(45)	(89)
Impairment charge	b	(28)	–	(28)
Valuation adjustments arising on reclassification from held for sale (note 11)		(28)	(17)	(45)
On disposals		–	2	2
Exchange and other adjustments		(1)	(18)	(19)
At 31 December 2009		**(212)**	**(620)**	**(832)**
Net book value				
At 31 December 2009		**1,410**	**426**	**1,836**
At 31 December 2008		1,266	418	1,684
At 1 January 2008		1,477	457	1,934

The impairment charges have arisen as a result of the current economic downturn and a re-assessment of the recoverable amount of certain properties, based on value in use, as follows:

a Recognised at 31 December 2008 in respect of a North American hotel. Estimated future cash flows were discounted at a pre-tax rate of 13.5%.

b Recognised at 30 June 2009, comprising $20m in respect of a North American hotel and $8m relating to a European hotel. Estimated future cash flows were discounted at pre-tax rates of 14.0% and 12.5% respectively.

These charges are included within impairment on the face of the Group income statement.

The carrying value of land and buildings held under finance leases at 31 December 2009 was $187m (2008 $192m).

The carrying value of assets in the course of construction was $nil (2008 $41m).

No borrowing costs were capitalised during the year (2008 $nil).

Notes to the Group financial statements continued

11 Assets sold, held for sale and discontinued operations

	2009 $m	2008 $m
Assets and liabilities held for sale		
Non-current assets classified as held for sale:		
Property, plant and equipment	–	210
Liabilities classified as held for sale:		
Deferred tax (note 26)	–	(4)

At 31 December 2008, five hotels were classified as held for sale. During the year ended 31 December 2009, one (2008 one) hotel was sold. The remaining four were reclassified as property, plant and equipment at 30 June 2009 when they no longer met the 'held for sale' criteria of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' as sales are no longer considered highly probable within the next 12 months. On reclassification, valuation adjustments of $45m were recognised, comprising $14m of depreciation not charged whilst held for sale and $31m of further write-downs to recoverable amounts, as required by IFRS 5. Recoverable amounts were assessed by reference to value in use with the expected future cash flows for the North American hotel comprising substantially all of the write-down discounted at a pre-tax rate of 12.5%. The valuation adjustments are included within impairment on the face of the Group income statement.

The results of two of these reclassified hotels, which, prior to 30 June 2009, were presented as discontinued operations, are now reported as continuing operations and prior period results have been re-presented on a consistent basis. The impact has been to increase revenue from continuing operations for the year by $34m (2008 $43m) and to increase operating profit from continuing operations, before exceptional items, for the year by $8m (2008 $14m).

Discontinued operations

Following the above reclassification and re-presentation, the results of discontinued operations comprise gains arising from prior year hotel disposals of $6m (2008 $5m) and do not impact on segmental results.

	2009 cents per ordinary share	2008 cents per ordinary share
Earnings per ordinary share from discontinued operations		
Basic	2.1	1.8
Diluted	2.0	1.7

There were no cash flows attributable to discontinued operations in the year (2008 $nil).

11 Assets sold, held for sale and discontinued operations continued

	2009 $m	2008 $m
Net assets of hotels sold		
Property, plant and equipment	22	28
Cash and cash equivalents	–	8
Group's share of net assets disposed of	22	36
Consideration		
Current year disposals:		
Cash consideration, net of costs paid	20	34
Net assets disposed of	(22)	(36)
Prior year disposals:		
Provision release	2	–
Tax	4	5
Gain on disposal of assets, net of tax	4	3
Analysed as:		
Loss on disposal of hotels from continuing operations (note 5)	(2)	(2)
Profit for the year from discontinued operations (note 5)	6	5
	4	3
Net cash inflow		
Current year disposals:		
Cash consideration, net of costs paid	20	34
Cash disposed of	–	(8)
Prior year disposals	–	(1)
	20	25

12 Goodwill

	2009 $m	2008 $m
Cost		
At 1 January	206	221
Exchange and other adjustments	17	(15)
At 31 December	223	206
Impairment		
At 1 January	(63)	–
Impairment charge	(78)	(63)
At 31 December	(141)	(63)
Net book value		
At 31 December	82	143
At 1 January	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.

Notes to the Group financial statements continued

12 Goodwill continued

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

	Cost		Net book value	
	2009 $m	2008 $m	2009 $m	2008 $m
Americas managed operations	141	141	–	78
Asia Pacific:				
Asia Pacific franchised and managed operations	n/a	65	n/a	65
Asia Australasia franchised and managed operations	82	n/a	82	n/a
	223	206	82	143

All cumulative impairment losses relate to the Americas managed CGU.

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 and strategic plans approved by management covering a five-year period or, in absence of up-to-date strategic plans, the financial budget for the next year with an extrapolation of the cash flows for the following four years, using growth rates based on management's past experience and industry growth forecasts. After the five-year planning 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. Pre-tax discount rates are used to discount the cash flows based on the Group's weighted average cost of capital adjusted to reflect the risks specific to the business model and territory of the CGU being tested.

Americas goodwill

Americas managed operations, which is both the CGU to which the goodwill is allocated and a segment reported by the Group, have incurred significant operating losses during the year. These have arisen as a result of the global economic downturn and, in particular, IHG's funding obligations under certain management contracts with one US hotel owner. As a consequence, goodwill has been tested on a quarterly basis during the year using updated five-year projections prepared by management, a perpetual growth rate of 2.7% and a discount rate of 12.5%. Due to the expectation of continuing losses, the recoverable value of the CGU has declined resulting in the impairment of the remaining goodwill balance. Total impairment charges of $78m have been recognised; $57m at 30 June 2009 and $21m at 30 September 2009.

The above impairment charges follow a charge of $63m that was recognised at 31 December 2008 as a result of the onset of the global economic downturn and a revision to expected fee income. The value in use calculations were based on the cash flows included in the approved budget for 2009 with an extrapolation over the following four years at growth rates increasing from 1% to 4%, a perpetual growth rate of 2.7% and a discount rate of 12.5%. Actual performance during 2009 was significantly worse than budgeted and future cash flow expectations continued to deteriorate throughout the course of the year.

The impairment charges for both years are included within impairment on the face of the Group income statement. As the goodwill has now been impaired in full, there is no sensitivity around any assumptions that could lead to a further impairment charge.

Asia Pacific goodwill

Following an internal reorganisation during the year, the regional managed and franchised operations now comprise two separate CGUs, Greater China and Asia Australasia. Goodwill, which was previously tested for impairment at the Asia Pacific regional CGU level, is now allocated to the smaller Asia Australasia CGU.

At 31 December 2009, the recoverable amount of the CGU has been assessed based on the approved budget for 2010 and strategic plans covering a five-year period, a perpetual growth rate of 3.5% (2008 4.0%) and a discount rate of 14.2% (2008 16.0%).

Impairment was not required at either year end and management believe that the carrying values of the CGUs would only have exceeded their recoverable amounts in the event of highly unlikely changes in the key assumptions.

13 Intangible assets

	Note	Software $m	Management contracts $m	Other intangibles $m	Total $m
Cost					
At 1 January 2008		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
Additions		24	–	9	33
Disposals		–	–	(7)	(7)
Exchange and other adjustments		3	11	3	17
At 31 December 2009		**185**	**231**	**98**	**514**
Amortisation and impairment					
At 1 January 2008		(63)	(26)	(31)	(120)
Provided		(20)	(12)	(8)	(40)
Impairment charge	a	–	(21)	–	(21)
Disposals		2	–	–	2
Exchange and other adjustments		–	9	1	10
At 31 December 2008		(81)	(50)	(38)	(169)
Provided		(19)	(10)	(9)	(38)
Impairment charge	b	–	(32)	–	(32)
Disposals		–	–	5	5
Exchange and other adjustments		–	(4)	(2)	(6)
At 31 December 2009		**(100)**	**(96)**	**(44)**	**(240)**
Net book value					
At 31 December 2009		**85**	**135**	**54**	**274**
At 31 December 2008		77	170	55	302
At 1 January 2008		57	223	55	335

The impairment charges have arisen as a result of the current economic downturn and a revision to expected fee income, as follows:

a Recognised at 30 September 2008 in respect of a European management contract. Estimated future cash flows were discounted at a pre-tax rate of 12.5% (previous valuation 10.0%).

b Recognised at 30 June 2009 in respect of a US management contract. Estimated future cash flows were discounted at a pre-tax rate of 12.5% (previous valuation 12.5%).

The charges are included within impairment on the face of the Group income statement.

The weighted average remaining amortisation period for management contracts is 22 years (2008 23 years).

14 Investment in associates

The Group holds five investments (2008 five) accounted for as associates. The following table summarises the financial information of the associates:

	2009 $m	2008 $m
Share of associates' statement of financial position		
Current assets	**5**	5
Non-current assets	**65**	65
Current liabilities	**(9)**	(20)
Non-current liabilities	**(16)**	(7)
Net assets	**45**	43
Share of associates' revenue and profit		
Revenue	**31**	30
Net loss	**(1)**	–
Related party transactions		
Revenue from related parties	**4**	5
Amounts owed by related parties	**2**	2

Notes to the Group financial statements continued

15 Other financial assets

	2009 $m	2008 $m
Non-current		
Equity securities available-for-sale	66	64
Other	64	88
	130	152
Current		
Equity securities available-for-sale	5	6
Other	–	4
	5	10

Available-for-sale financial assets, which are included in the Group statement of financial position at fair value, consist of equity investments in listed and unlisted shares. Of the total amount of equity investments at 31 December 2009, $2m (2008 $2m) were listed securities and $69m (2008 $68m) unlisted; $39m (2008 $44m) were denominated in US dollars, $14m (2008 $13m) in Hong Kong dollars and $18m (2008 $13m) 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 $7m (2008 $11m) 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 $47m (2008 $55m) 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:

	2009 $m	2008 $m
At 1 January	(11)	(9)
Provided:		
Operating profit before exceptional items	–	(2)
Exceptional items (note 5)	(14)	–
At 31 December	(25)	(11)

The amount provided as an exceptional item relates to an available-for-sale equity investment and arises as a result of a significant and prolonged decline in its fair value below its cost. In addition, a deposit of $26m has been written off directly to the income statement as an exceptional item (see note 5) as it is no longer considered recoverable under the terms of the related management contracts which are deemed onerous.

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 either written off directly to the income statement or, if previously provided, against the financial asset with no impact on the income statement.

16 Inventories

	2009 $m	2008 $m
Finished goods	2	2
Consumable stores	2	2
	4	4

17 Trade and other receivables

	2009 $m	2008 $m
Trade receivables	**268**	318
Other receivables	**27**	49
Prepayments	**40**	45
	335	412

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 end of the reporting period by geographic region is:

	2009 $m	2008 $m
Americas	**158**	208
Europe, Middle East and Africa	**90**	109
Asia Pacific	**47**	50
	295	367

The ageing of trade and other receivables, excluding prepayments, at the end of the reporting period is:

	2009			2008		
	Gross $m	Provision $m	Net $m	Gross $m	Provision $m	Net $m
Not past due	**173**	**(2)**	**171**	254	(13)	241
Past due 1 to 30 days	**70**	**(9)**	**61**	61	(1)	60
Past due 31 to 180 days	**80**	**(19)**	**61**	63	(5)	58
Past due more than 180 days	**57**	**(55)**	**2**	99	(91)	8
	380	**(85)**	**295**	477	(110)	367

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

	2009 $m	2008 $m
At 1 January	**(110)**	(96)
Provided	**(34)**	(28)
Amounts written off	**59**	14
At 31 December	**(85)**	(110)

18 Cash and cash equivalents

	2009 $m	2008 $m
Cash at bank and in hand	**23**	32
Short-term deposits	**17**	50
	40	82

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

	2009 $m	2008 $m
Current		
Trade payables	99	111
Other tax and social security payable	29	31
Other payables	278	322
Accruals	262	272
Derivatives	20	10
	688	746
Non-current		
Other payables	408	392

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

Other payables include $470m (2008 $471m) relating to the future redemption liability of the Group's loyalty programme, of which $86m (2008 $96m) is classified as current and $384m (2008 $375m) as non-current.

Derivatives are held in the Group statement of financial position at fair value. Fair value is estimated using discounted future cash flows taking into consideration interest and exchange rates prevailing on the last day of the reporting period.

20 Provisions

	2009 $m	2008 $m
Onerous management contracts	65	–

The onerous management contracts provision relates to the unavoidable net cash outflows that are expected to be incurred under the performance guarantee associated with certain management contracts with one US hotel owner (see note 5). As the provision was first recognised in the income statement at 31 December 2009, there are no other movements to disclose. The provision is expected to be utilised within 12 months.

21 Loans and other borrowings

	2009			2008		
	Current $m	Non-current $m	Total $m	Current $m	Non-current $m	Total $m
Secured bank loans	3	5	8	5	2	7
Finance leases	16	188	204	16	186	202
£250m 6% bonds	–	402	402	–	–	–
Unsecured bank loans	87	421	508	–	1,146	1,146
Total borrowings	106	1,016	1,122	21	1,334	1,355
Denominated in the following currencies:						
Sterling	–	402	402	–	152	152
US dollars	103	348	451	16	873	889
Euro	–	216	216	–	224	224
Other	3	50	53	5	85	90
	106	1,016	1,122	21	1,334	1,355

Secured bank loans

These mortgages are secured on the hotel properties to which they relate. The rates of interest and currencies of these loans vary.

Non-current amounts include $5m (2008 $nil) repayable by instalments.

21 Loans and other borrowings continued

Finance leases

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

	2009 Minimum lease payments $m	2009 Present value of payments $m	2008 Minimum lease payments $m	2008 Present value of payments $m
Less than one year	**16**	**16**	16	16
Between one and five years	**64**	**48**	64	48
More than five years	**3,364**	**140**	3,380	138
	3,444	**204**	3,460	202
Less: amount representing finance charges	**(3,240)**	**–**	(3,258)	–
	204	**204**	202	202

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.

£250m 6% bonds

The 6% fixed interest sterling bonds were issued on 9 December 2009 and are repayable in full on 9 December 2016. Interest is payable annually on 9 December in each year commencing 9 December 2010 to the maturity date. The bonds were initially priced at 99.465% of face value and are unsecured. Currency swaps were transacted at the same time the bonds were issued in order to swap the proceeds and interest flows into US dollars. Under the terms of the swaps, $415m was borrowed and £250m deposited for seven years at a fixed exchange rate of 1.66.

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 end of the reporting period, 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. At 31 December 2009, this syndicated bank facility consists of two tranches; a $1.6bn five-year revolving credit facility and an $85m term loan with a 30-month maturity. In December 2009, the Group repaid $415m of the term loan with proceeds from the bond issue.

Facilities provided by banks	2009 Utilised $m	2009 Unutilised $m	2009 Total $m	2008 Utilised $m	2008 Unutilised $m	2008 Total $m
Committed	**519**	**1,174**	**1,693**	1,161	946	2,107
Uncommitted	**3**	**22**	**25**	–	25	25
	522	**1,196**	**1,718**	1,161	971	2,132

	2009 $m	2008 $m
Unutilised facilities expire:		
Within one year	**22**	25
After two but before five years	**1,174**	946
	1,196	971

Utilised facilities are calculated based on actual drawings and may not agree to the carrying value of loans held at amortised cost.

22 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.

Notes to the Group financial statements continued

22 Financial risk management policies continued

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 $1.6m (2008 $4.0m) and increase net assets by an estimated $4.1m (2008 decrease of $1.1m). Similarly, a five cent fall in the euro:US dollar rate would reduce the Group's profit before tax by an estimated $0.7m (2008 $2.0m) and decrease net assets by an estimated $4.5m (2008 $4.3m).

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 $0.8m (2008 $4.7m). A similar rise in euro and sterling interest rates would increase the annual net interest charge by approximately $1.1m (2008 $1.2m) and $nil (2008 $0.9m) respectively.

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 $1,174m of undrawn committed facilities. Medium and long-term borrowing requirements are met through the $1,685m Syndicated Facility of which $85m expires in November 2010 and $1.6bn expires in May 2013 and through the £250m 6% bonds that are repayable on 9 December 2016. 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.

At the year end, the Group had surplus cash of $40m 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 2009, the Group held interest rate swaps (swapping floating for fixed) with notional principals of USD250m and EUR75m (2008 USD250m, GBP75m and EUR75m). The Group did not hold any forward-starting interest rate swaps at 31 December 2009 (2008 interest rate swaps with notional principals of USD100m, GBP75m and EUR75m). The interest rate swaps are designated as cash flow hedges of borrowings under the Syndicated Facility and they are held in the Group statement of financial position 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 in the Group statement of financial position 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 for loans and short-dated derivatives and the forward risk for the seven-year currency swaps. The interest on these financial instruments is taken through financial income or expense except for the seven-year currency swaps where interest is taken to the currency translation reserve. The derivatives are held in the Group statement of financial position 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 2009, the Group held currency swaps with a principal of $415m (2008 $nil) and a fair value of $13m liability (2008 $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 $415m (2008 $70m) and a fair value of $13m liability (2008 $4m liability).

23 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 2009					
Non-derivative financial liabilities:					
Secured bank loans	3	1	5	–	9
£250m 6% bonds	24	24	73	453	574
Finance lease obligations	16	16	48	3,364	3,444
Unsecured bank loans	512	–	–	–	512
Trade and other payables	668	102	120	302	1,192
Provisions	65	–	–	–	65
Derivative financial liabilities:					
Interest rate swaps	7	4	1	–	12
Currency swaps – outflows	26	26	77	467	596
– inflows	(24)	(24)	(73)	(453)	(574)

	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					
Non-derivative financial liabilities:					
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
Derivative financial liabilities:					
Interest rate swaps	6	4	3	–	13

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

Interest rate swaps are expected to affect profit or loss in the same periods that the cash flows are expected to occur.

Fair values

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

	Note	2009 Carrying value $m	2009 Fair value $m	2008 Carrying value $m	2008 Fair value $m
Financial assets					
Equity securities available-for-sale*	15	71	71	70	70
Loans and receivables:					
Cash and cash equivalents	18	40	40	82	82
Other financial assets	15	64	64	92	92
Trade and other receivables, excluding prepayments	17	295	295	367	367
Financial liabilities					
£250m 6% bonds	21	(402)	(402)	–	–
Finance lease obligations	21	(204)	(206)	(202)	(168)
Other borrowings	21	(516)	(516)	(1,153)	(1,153)
Trade and other payables, excluding derivatives	19	(1,076)	(1,076)	(1,128)	(1,128)
Derivatives*	19	(20)	(20)	(10)	(10)
Provisions	20	(65)	(65)	–	–

* Financial assets and liabilities which are measured at fair value.

Notes to the Group financial statements continued

23 Financial instruments continued

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 in the Group statement of financial position 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 and the fixed rate £250m 6% bonds, approximates book value as interest rates reset to market rates on a frequent basis. The fair value of the £250m 6% bonds is based on the quoted market price. 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, trade and other payables and current provisions approximates to their carrying value, including the future redemption liability of the Group's loyalty programme.

Fair value hierarchy

The Group uses the following valuation hierarchy to determine the carrying value of financial instruments that are measured at fair value:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

				2009				2008
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets								
Equity securities available-for-sale	2	–	69	71	2	–	68	70

				2009				2008
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Liabilities								
Derivatives	–	(20)	–	(20)	–	(10)	–	(10)

There were no transfers between Level 1 and Level 2 fair value measurements during the year and no transfers into and out of Level 3.

The following table reconciles movements in instruments classified as Level 3 during the year:

	2009 $m
Balance at 1 January 2009	68
Valuation gains recognised in other comprehensive income	11
Impairment*	(10)
Balance at 31 December 2009	69

* The impairment charge recognised in the income statement (see note 5) also includes $4m of losses reclassified from equity.

The Level 3 equity securities relate to investments in unlisted shares which are valued by applying an average price-earnings (P/E) ratio for a competitor group to the earnings generated by the investment. A 10% increase in the average P/E ratio would result in a $5m increase in the fair value of the investments and a 10% decrease in the average P/E ratio would result in a $5m decrease in the fair value of the investments.

Credit risk

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

	2009 $m	2008 $m
Equity securities available-for-sale	71	70
Loans and receivables:		
Cash and cash equivalents	40	82
Other financial assets	64	92
Trade and other receivables, excluding prepayments	295	367
	470	611

24 Net debt

	2009 $m	2008 $m
Cash and cash equivalents	40	82
Loans and other borrowings – current	(106)	(21)
– non-current	(1,016)	(1,334)
Net debt	(1,082)	(1,273)
Movement in net debt		
Net (decrease)/increase in cash and cash equivalents	(44)	25
Add back cash flows in respect of other components of net debt:		
Issue of £250m 6% bonds	(411)	–
Decrease in other borrowings	660	316
Decrease in net debt arising from cash flows	205	341
Non-cash movements:		
Finance lease liability	(2)	(2)
Exchange and other adjustments	(12)	47
Decrease in net debt	191	386
Net debt at beginning of the year	(1,273)	(1,659)
Net debt at end of the year	(1,082)	(1,273)

25 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 (2008 460) employees, of which 150 (2008 170) are in the defined benefit section which provides pensions based on final salaries and 310 (2008 290) 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.

In respect of the defined benefit plans, the amounts recognised in the Group income statement, in administrative expenses, are:

	Pension plans UK		Pension plans US and other		Post-employment benefits		Total	
	2009 $m	2008 $m	2009 $m	2008 $m	2009 $m	2008 $m	2009 $m	2008 $m
Current service cost	7	9	1	1	–	–	8	10
Interest cost on benefit obligation	22	30	10	10	1	1	33	41
Expected return on plan assets	(21)	(32)	(8)	(11)	–	–	(29)	(43)
Operating profit before exceptional items	8	7	3	–	1	1	12	8
Exceptional items	11	–	–	–	–	–	11	–
	19	7	3	–	1	1	23	8

On 23 January 2009, 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 £5.9m and additional contributions of £4.3m, were made by the Group in the first quarter of 2009. The transfer values subsequently paid by the plan were £45m and the corresponding IAS 19 liability extinguished was £38m. The settlement loss arising of £7m (being the $11m exceptional items above), together with the lump sum payment and costs of arrangement, has been charged to the Group income statement as an exceptional item (see note 5).

Notes to the Group financial statements continued

25 Retirement benefits continued

The amounts recognised in the Group statement of comprehensive income are:

	Pension plans UK		Pension plans US and other		Post-employment benefits		Total	
	2009 $m	2008 $m	2009 $m	2008 $m	2009 $m	2008 $m	2009 $m	2008 $m
Actual return on plan assets	7	(25)	22	(27)	–	–	29	(52)
Less: expected return on plan assets	(21)	(32)	(8)	(11)	–	–	(29)	(43)
	(14)	(57)	14	(38)	–	–	–	(95)
Other actuarial (losses)/gains	(44)	55	(13)	3	(1)	1	(58)	59
Total actuarial (losses)/gains	(58)	(2)	1	(35)	(1)	1	(58)	(36)
Asset restriction*	21	(14)	–	–	–	–	21	(14)
	(37)	(16)	1	(35)	(1)	1	(37)	(50)

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

The assets and liabilities of the schemes and the amounts recognised in the Group statement of financial position are:

	Pension plans UK		Pension plans US and other		Post-employment benefits		Total	
	2009 $m	2008 $m	2009 $m	2008 $m	2009 $m	2008 $m	2009 $m	2008 $m
Schemes in surplus								
Fair value of plan assets	426	437	16	16	–	–	442	453
Present value of benefit obligations	(414)	(377)	(12)	(13)	–	–	(426)	(390)
Surplus in schemes	12	60	4	3	–	–	16	63
Asset restriction*	(4)	(23)	–	–	–	–	(4)	(23)
Retirement benefit assets	8	37	4	3	–	–	12	40
Schemes in deficit								
Fair value of plan assets	–	–	110	96	–	–	110	96
Present value of benefit obligations	(47)	(34)	(185)	(172)	(20)	(19)	(252)	(225)
Retirement benefit obligations	(47)	(34)	(75)	(76)	(20)	(19)	(142)	(129)
Total fair value of plan assets	426	437	126	112	–	–	552	549
Total present value of benefit obligations	(461)	(411)	(197)	(185)	(20)	(19)	(678)	(615)

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

The 'US and other' surplus of $4m (2008 $3m) relates to a defined benefit pension scheme in Hong Kong. Included within the 'US and other' deficit is $1m (2008 $1m) relating to a defined benefit pension plan in the Netherlands.

25 Retirement benefits continued

Assumptions

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

	Pension plans UK 2009 %	Pension plans UK 2008 %	Pension plans US 2009 %	Pension plans US 2008 %	Post-employment benefits 2009 %	Post-employment benefits 2008 %
Wages and salaries increases	**5.1**	4.5	**–**	–	**4.0**	4.0
Pensions increases	**3.6**	3.0	**–**	–	**–**	–
Discount rate	**5.7**	5.6	**5.7**	6.2	**5.7**	6.2
Inflation rate	**3.6**	3.0	**–**	–	**–**	–
Healthcare cost trend rate assumed for next year					**9.0**	9.5
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 2009 Years	Pension plans UK 2008 Years	Pension plans US 2009 Years	Pension plans US 2008 Years
Current pensioners at 65[a]	– male	**23**	23	**18**	18
	– female	**26**	26	**21**	20
Future pensioners at 65[b]	– male	**24**	24	**18**	18
	– female	**27**	27	**21**	20

a Relates to assumptions based on longevity (in years) following retirement at the end of the reporting period.

b Relates to assumptions based on longevity (in years) relating to an employee retiring in 2029.

The assumptions allow for expected increases in longevity.

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 statement of financial position. 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 Higher/(lower) pension cost $m	UK Increase/(decrease) in liabilities $m	US Higher/(lower) pension cost $m	US Increase/(decrease) in liabilities $m
Discount rate	– 0.25% decrease	0.6	23.3	–	5.2
	– 0.25% increase	(0.5)	(22.2)	–	(5.0)
Inflation rate	– 0.25% increase	1.6	20.7	–	–
	– 0.25% decrease	(1.3)	(19.8)	–	–
Mortality rate	– one year increase	0.8	9.2	–	6.6

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 2009 by approximately $1.6m (2008 $1.7m) 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 (2008 $0.1m).

Notes to the Group financial statements continued

25 Retirement benefits continued

Movement in benefit obligation	Pension plans UK 2009 $m	Pension plans UK 2008 $m	Pension plans US and other 2009 $m	Pension plans US and other 2008 $m	Post-employment benefits 2009 $m	Post-employment benefits 2008 $m	Total 2009 $m	Total 2008 $m
Benefit obligation at beginning of year	**411**	597	**185**	184	**19**	20	**615**	801
Current service cost	**7**	9	**1**	1	**–**	–	**8**	10
Members' contributions	**1**	1	**–**	–	**–**	–	**1**	1
Interest expense	**22**	30	**10**	10	**1**	1	**33**	41
Benefits paid	**(12)**	(12)	**(13)**	(12)	**(1)**	(1)	**(26)**	(25)
Enhanced pension transfer	**(59)**	–	**–**	–	**–**	–	**(59)**	–
Reclassification*	**–**	–	**–**	5	**–**	–	**–**	5
Actuarial loss/(gain) arising in the year	**44**	(55)	**13**	(3)	**1**	(1)	**58**	(59)
Exchange adjustments	**47**	(159)	**1**	–	**–**	–	**48**	(159)
Benefit obligation at end of year	**461**	411	**197**	185	**20**	19	**678**	615
Comprising:								
Funded plans	**414**	377	**151**	141	**–**	–	**565**	518
Unfunded plans	**47**	34	**46**	44	**20**	19	**113**	97
	461	411	**197**	185	**20**	19	**678**	615

* Relates to the recognition of the gross assets and obligations of the Netherlands pension scheme.

Movement in plan assets	Pension plans UK 2009 $m	Pension plans UK 2008 $m	Pension plans US and other 2009 $m	Pension plans US and other 2008 $m	Post-employment benefits 2009 $m	Post-employment benefits 2008 $m	Total 2009 $m	Total 2008 $m
Fair value of plan assets at beginning of year	**437**	611	**112**	144	**–**	–	**549**	755
Company contributions	**16**	30	**4**	3	**1**	1	**21**	34
Members' contributions	**1**	1	**–**	–	**–**	–	**1**	1
Benefits paid	**(12)**	(12)	**(13)**	(12)	**(1)**	(1)	**(26)**	(25)
Enhanced pension transfer	**(70)**	–	**–**	–	**–**	–	**(70)**	–
Reclassification*	**–**	–	**–**	4	**–**	–	**–**	4
Expected return on plan assets	**21**	32	**8**	11	**–**	–	**29**	43
Actuarial (loss)/gain arising in the year	**(14)**	(57)	**14**	(38)	**–**	–	**–**	(95)
Exchange adjustments	**47**	(168)	**1**	–	**–**	–	**48**	(168)
Fair value of plan assets at end of year	**426**	437	**126**	112	**–**	–	**552**	549

* Relates to the recognition of the gross assets and obligations of the Netherlands 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 at that time, 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 were made in prior years and the final commitment of £10m was met through the funding of the enhanced pension transfer arrangements detailed above. The next actuarial valuation due as at 31 March 2009 is currently in progress.

Company contributions are expected to be $13m in 2010.

25 Retirement benefits continued

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

	2009 Long-term rate of return expected %	2009 Value $m	2008 Long-term rate of return expected %	2008 Value $m
UK pension plans				
Liability matching investment funds	**4.8**	**196**	3.9	192
Equities	**9.2**	**77**	7.9	87
Bonds	**4.8**	**64**	3.9	140
Cash	**4.8**	**55**	3.9	4
Other	**9.2**	**34**	7.9	14
Total market value of assets		**426**		437
US pension plans				
Equities	**9.5**	**63**	9.5	55
Fixed income	**5.5**	**42**	5.5	37
Total market value of assets		**105**		92

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.

History of experience gains and losses	2009 $m	2008 $m	2007 $m	2006 $m	2005 $m
UK pension plans					
Fair value of plan assets	**426**	437	611	527	431
Present value of benefit obligations	**(461)**	(411)	(597)	(585)	(473)
(Deficit)/surplus in the plans	**(35)**	26	14	(58)	(42)
Experience adjustments arising on plan liabilities	**(44)**	55	31	(22)	(122)
Experience adjustments arising on plan assets	**(14)**	(57)	(6)	13	86
US and other pension plans					
Fair value of plan assets	**126**	112	144	111	106
Present value of benefit obligations	**(197)**	(185)	(184)	(175)	(176)
Deficit in the plans	**(71)**	(73)	(40)	(64)	(70)
Experience adjustments arising on plan liabilities	**(13)**	3	–	–	(5)
Experience adjustments arising on plan assets	**14**	(38)	–	4	(2)
US post-employment benefits					
Present value of benefit obligations	**(20)**	(19)	(20)	(19)	(20)
Experience adjustments arising on plan liabilities	**(1)**	1	–	1	1

The cumulative amount of net actuarial losses recognised since 1 January 2004 in the Group statement of comprehensive income is $208m (2008 $150m). 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 comprehensive income before 1 January 2004.

Notes to the Group financial statements continued

26 Deferred tax

	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 2008	248	175	(190)	(32)	42	(89)	154
Income statement	(7)	–	13	18	(8)	(8)	8
Statement of comprehensive income	–	–	–	(21)	–	–	(21)
Statement of changes in equity	–	–	–	–	–	2	2
Exchange and other adjustments	(15)	(33)	36	2	(6)	(6)	(22)
At 31 December 2008	226	142	(141)	(33)	28	(101)	121
Income statement	(43)	–	6	(1)	1	(59)	(96)
Statement of comprehensive income	–	–	–	(1)	–	–	(1)
Statement of changes in equity	–	–	–	–	–	(6)	(6)
Exchange and other adjustments	6	9	(11)	–	2	(1)	5
At 31 December 2009	**189**	**151**	**(146)**	**(35)**	**31**	**(167)**	**23**

	2009 $m	2008 $m
Analysed as:		
Deferred tax receivable	**(95)**	–
Deferred tax payable	**118**	117
Liabilities classified as held for sale	**–**	4
At 31 December	**23**	121

Deferred gains on loan notes includes $55m (2008 $55m) which is expected to fall due for payment in 2011.

The deferred tax asset of $146m (2008 $141m) recognised in respect of losses includes $97m (2008 $87m) in respect of capital losses available to be utilised against the realisation of capital gains which are recognised as a deferred tax liability and $49m (2008 $54m) in respect of revenue tax losses.

Tax losses with a net tax value of $517m (2008 $553m), including capital losses with a value of $196m (2008 $160m), have not been recognised. These losses may be carried forward indefinitely with the exception of $1m which expires after 15 years, $1m which expires after nine years and $14m which expires after seven years (2008 $1m which expires after three years). Deferred tax assets with a net tax value of $9m (2008 $4m) in respect of share-based payments, $13m (2008 $13m) in respect of employee benefits and $7m (2008 $8m) 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 2009, the Group has not provided deferred tax in relation to temporary differences associated with post-acquisition undistributed earnings of subsidiaries as the Group is in a position to control the timing of reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. Following introduction of a UK dividend exemption regime, the tax which would arise upon reversal of the temporary differences is not expected to exceed $20m.

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

27 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 any matching shares awarded are released on the third anniversary of the award date. The bonuses in 2006 and 2007 were eligible for matching shares, all of which will be released on the third anniversary of the award date. In 2006 and 2007, participants could defer up to 100% of the total annual bonus, with the deferred amount being accounted for as a share-based payment. Under the terms of the 2008 and 2009 plans, 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 or leaving for a qualifying reason as per the plan rules. 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 1,058,734 (2008 661,657) shares were awarded to participants. This number includes 228,000 shares awarded as part of recruitment terms or for one-off individual performance-related awards.

Long Term Incentive Plan
The Long Term Incentive Plan allows Executive Directors and eligible employees to receive share awards, subject to the satisfaction of performance conditions, set by the Remuneration Committee, which are 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 5,754,548 (2008 5,060,509) 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 2009 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 2009 and no options were granted in the year under the plan. All options outstanding at 31 December 2008 were either exercised or lapsed in 2009.

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 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 2009 and at 31 December 2009 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 2009, 380,457 (2008 159,254) such options were exercised and 43,088 shares lapsed (2008 113,024), leaving a total of 2,001,060 (2008 2,424,605) such options outstanding at prices ranging from 308.5p to 434.2p. The latest date that any options may be exercised is 3 October 2012.

Notes to the Group financial statements continued

27 Share-based payments continued

The Group recognised a cost of $22m (2008 $47m) in operating profit and $2m (2008 $2m) 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 $11m (2008 $2m).

The following table sets forth awards and options granted during 2009. 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 2009	**1,058,734**	**5,754,548**

In 2009 and 2008, 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
2009		
Valuation model	Binomial	Monte Carlo Simulation and Binomial
Weighted average share price	454.0p	612.0p
Expected dividend yield	4.89%	5.26%
Risk-free interest rate		2.11%
Volatility*		43%
Term (years)	3.0	3.0

	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

* 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.

27 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 2008	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
Granted	1,059	5,755
Vested	(434)	(3,124)
Lapsed or cancelled	(60)	(1,518)
Outstanding at 31 December 2009	**1,854**	**12,266**
Fair value of awards granted during the year		
2009	**735.6¢**	**414.1¢**
2008	1,436.0¢	870.4¢
Weighted average remaining contract life (years)		
At 31 December 2009	**1.3**	**1.3**
At 31 December 2008	1.6	1.2

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 2008	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
Exercised	(48)	420.5	420.5	(1,518)	308.5-619.8	496.2
Lapsed or cancelled	(1)	420.5	420.5	(247)	438.0-619.8	509.9
Outstanding at 31 December 2009	**–**	**–**	**–**	**5,870**	**308.5-619.8**	**482.8**
Options exercisable						
At 31 December 2009	**–**	**–**	**–**	**5,870**	**308.5-619.8**	**482.8**
At 31 December 2008	–	–	–	7,635	308.5-619.8	486.3

Included within the options outstanding under the Executive Share Option Plan are options over 2,001,060 (2008 2,424,605, 2007 2,696,883) 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 571.0p. The closing share price on 31 December 2009 was 893.0p and the range during the year was 446.0p to 903.5p per share.

Summarised information about options outstanding at 31 December 2009 under the share option schemes is as follows:

	Options outstanding and exercisable		
Range of exercise prices (pence)	Number outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence
Executive Share Option Plan			
308.5 to 349.1	268	0.3	347.3
422.8 to 494.2	4,574	3.3	459.9
619.8	1,028	5.3	619.8
	5,870	3.5	482.8

Notes to the Group financial statements continued

28 Issued share capital and reserves

Equity share capital

At 30 September 2009, 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. As a result of the resolution passed at the Annual General Meeting on 29 May 2009 amending the Articles of Association in line with the Companies Act 2006, from 1 October 2009 the Company no longer has authorised share capital.

	Number of shares millions	Nominal value $m	Share premium $m	Equity share capital $m
Allotted, called up and fully paid (ordinary shares of 13 29/47p)				
At 1 January 2008	295	81	82	163
Issued on exercise of share options	–	–	2	2
Repurchased and cancelled under repurchase programmes	(9)	(3)	–	(3)
Exchange adjustments	–	(21)	(23)	(44)
At 31 December 2008	286	57	61	118
Issued on exercise of share options	1	–	11	11
Exchange adjustments	–	6	7	13
At 31 December 2009	**287**	**63**	**79**	**142**

During 2008, 9,219,325 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 Company deferred its £150m share repurchase programme in November 2008 in order to preserve cash and maintain the strength of the Group's financial position. No shares were repurchased in 2009.

The authority given to the Company at the Annual General Meeting on 29 May 2009 to purchase its own shares was still valid at 31 December 2009. A resolution to renew the authority will be put to shareholders at the Annual General Meeting on 28 May 2010.

The balance classified as equity 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 represents the amount of proceeds received for shares in excess of their nominal value.

The nature and purpose of the other reserves shown in the Group statement of changes in equity on page 62 of the financial statements is as follows:

Capital redemption reserve

This reserve maintains the nominal value of the equity share capital of the Company when shares are repurchased or cancelled.

Shares held by employee share trusts

Comprises $3.8m (2008 $49.2m) in respect of 0.3m (2008 3.0m) InterContinental Hotels Group PLC ordinary shares held by employee share trusts, with a market value at 31 December 2009 of $4m (2008 $25m).

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 in 2008 (see page 65), 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 2009 was a $7m liability (2008 $10m 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 2009, the impact of hedging net investments in foreign operations was to increase the amount recorded in the currency translation reserve by $8m (2008 reduce by $96m). The fair value of derivative instruments designated as hedges of net investments in foreign operations outstanding at 31 December 2009 was a $13m liability (2008 $nil).

29 Operating leases

During the year ended 31 December 2009, $51m (2008 $61m) 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:

	2009 $m	2008 $m
Due within one year	51	56
One to two years	44	50
Two to three years	38	47
Three to four years	37	40
Four to five years	30	33
More than five years	309	322
	509	548

Included above are commitments of $8m (2008 $11m) which will be borne by the System Funds.

The average remaining term of these leases, which generally contain renewal options, is approximately 19 years (2008 18 years). No material restrictions or guarantees exist in the Group's lease obligations.

30 Capital and other commitments

	2009 $m	2008 $m
Contracts placed for expenditure on property, plant and equipment and intangible assets not provided for in the Group financial statements	9	40

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. During the year, $19m (2008 $35m) was charged.

31 Contingencies

	2009 $m	2008 $m
Contingent liabilities not provided for in the Group financial statements	16	12

In limited cases, the Group may provide performance guarantees to third-party owners to secure management contracts. The maximum outstanding exposure under such guarantees is $106m (2008 $249m). Payments under any such guarantees are charged to the income statement as incurred.

From time to time, the Group is subject to legal proceedings the ultimate outcome of each being always subject to many uncertainties inherent in litigation. The Group has also given warranties in respect of the disposal of certain of its former subsidiaries. It is the view of the Directors that, other than to the extent that liabilities have been provided for in these financial statements, such legal proceedings and warranties are not expected to result in material financial loss to the Group.

Notes to the Group financial statements continued

32 Related party disclosures

Key management personnel comprises the Board and Executive Committee.

Total compensation of key management personnel	2009 $m	2008 $m
Short-term employment benefits	9.8	18.4
Post-employment benefits	0.6	0.7
Termination benefits	0.8	–
Equity compensation benefits	9.5	12.8
	20.7	31.9

There were no transactions with key management personnel during the year ended 31 December 2009 or the previous year.

33 System Funds

The Group operates funds to collect and administer assessments from hotel owners for specific use in marketing, the Priority Club loyalty programme and the global reservation system. The Funds and loyalty programme are accounted for in accordance with the accounting policies set out on page 69 of the financial statements.

The following information is relevant to the operation of the Funds:

	2009 $m	2008 $m
Assessment fees received from hotels*	1,008	990
Key elements of Funds' expenditure:*		
Marketing	165	211
Priority Club	210	212
Payroll costs	152	155
Net surplus for the year	43	10
Cumulative short-term net surplus	71	28
Loyalty programme liability	470	471
Interest payable to the Funds	2	12

* Not included in the Group income statement in accordance with the Group's accounting policies.

The payroll costs above relate to 4,019 (2008 3,853) employees who are employed by the Funds.

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 Corp.[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 2009.

Staybridge Suites, Liverpool, UK

Parent company financial statements

Parent company balance sheet

31 December 2009	Note	2009 £m	2008 £m
Fixed assets			
Investments	3	**2,894**	2,878
Current assets			
Debtors	4	**22**	156
Creditors: amounts falling due within one year	5	**(2,048)**	(2,526)
Net current liabilities		**(2,026)**	(2,370)
Total assets less current liabilities		**868**	508
Creditors: amounts falling due after one year	5	**(248)**	–
Net assets		**620**	508
Capital and reserves			
Called up share capital	6	**39**	39
Share premium account	7	**49**	42
Capital redemption reserve	7	**6**	6
Share-based payment reserve	7	**127**	111
Profit and loss account	7	**399**	310
Equity shareholders' funds		**620**	508

Signed on behalf of the Board

Richard Solomons
15 February 2010

No profit and loss account is presented for InterContinental Hotels Group PLC as permitted by Section 408 of the Companies Act 2006. Profit on ordinary activities after taxation amounts to £167m (2008 £186m).

Notes on pages 107 to 109 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 and on a going concern basis. They have been drawn up to comply with applicable accounting standards in the United Kingdom (UK GAAP). These accounts are for the Company and are not consolidated financial statements.

Fixed asset investments

Fixed asset investments are stated at cost plus share-based payments capital contributions less any provision for impairment. The Company records an increase in its investments in subsidiaries equal to the share-based payments charge recognised by its subsidiaries with a corresponding credit to equity.

Borrowings

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 the transaction costs and any discount or premium on issue, are charged to the profit and loss account using the effective interest rate method.

Borrowings are classified as due after more than one year when the repayment date is more than 12 months from the balance sheet date.

Financial risk management policies

Financial risk management policies are set out in note 22 of the Group financial statements on pages 89 and 90.

Capital risk management

The Group's capital risk management policy is set out in note 22 of the Group financial statements on page 90.

Related party transactions

The Company takes advantage of the exemption under FRS 8 and does not disclose transactions with wholly owned subsidiaries.

2 Employees and Directors

	2009	2008
Average number of employees (Non-Executive Directors)	6	7

	2009 £m	2008 £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 46 to 56.

3 Investments

	£m
At 1 January 2009	2,878
Share-based payments capital contribution	16
At 31 December 2009	**2,894**

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

	2009 £m	2008 £m
Amounts due from subsidiary undertakings	5	148
Corporate taxation	17	8
	22	156

Notes to the parent company financial statements continued

5 Creditors

	2009 £m	2008 £m
Amounts falling due within one year		
Amounts due to subsidiary undertakings	**2,048**	2,526
Amounts falling due after more than one year		
£250m 6% bonds	**248**	–

The 6% fixed interest sterling bonds were issued on 9 December 2009 and are repayable in full on 9 December 2016. Interest is payable annually on 9 December in each year commencing 9 December 2010 to the maturity date. The bonds were initially priced at 99.465% of face value and are unsecured.

6 Share capital

At 30 September 2009, the authorised share capital was £160,050,000 comprising 1,175,000,000 ordinary shares of 13 $^{29}/_{47}$p each and one redeemable preference share of £50,000. As a result of the resolution passed at the Annual General Meeting on 29 May 2009 amending the Articles of Association in line with the Companies Act 2006, from 1 October 2009 the Company no longer has authorised share capital.

	Number of shares millions	£m
Allotted, called up and fully paid (ordinary shares of 13 $^{29}/_{47}$p each)		
At 31 December 2008	286	39
Issued on exercise of share options	1	–
At 31 December 2009	**287**	**39**

The aggregate consideration in respect of ordinary shares issued under option schemes during the year was £7m (2008 £1m).

	Thousands
Options to subscribe for ordinary shares	
At 31 December 2008	7,684
Exercised*	(1,566)
Lapsed or cancelled	(248)
At 31 December 2009	**5,870**
Option exercise price per ordinary share (pence)	308.5-619.8
Final exercise date	4 April 2015

* The weighted average option price was 496.2p 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 29 May 2009 to purchase its own shares was still valid at 31 December 2009. A resolution to renew the authority will be put to shareholders at the Annual General Meeting on 28 May 2010.

No shares were repurchased in 2009 (2008 9,219,325 shares).

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 2009	42	6	111	310
Premium on allotment of ordinary shares	7	–	–	–
Profit after tax	–	–	–	167
Share-based payments capital contribution	–	–	16	–
Dividends	–	–	–	(78)
At 31 December 2009	**49**	**6**	**127**	**399**

8 Reconciliation of movements in shareholders' funds

	2009 £m	2008 £m
Earnings available for shareholders	167	186
Dividends	(78)	(62)
	89	124
Issue of ordinary shares	7	1
Repurchase of ordinary shares	–	(71)
Share-based payments capital contribution	16	27
Net movement in shareholders' funds	112	81
Opening shareholders' funds	508	427
Closing shareholders' funds	620	508

9 Profit and dividends

Profit on ordinary activities after tax amounts to £167m (2008 £186m).

A final dividend, declared in the previous year, of 20.2p (2008 14.9p) per share was paid during the year, amounting to £57m (2008 £44m). An interim dividend of 7.3p (2008 6.4p) per share was paid during the year, amounting to £21m (2008 £18m). A final dividend of 18.7p (2008 20.2p) per share, amounting to £54m (2008 £58m), is proposed for approval at the Annual General Meeting. The proposed final dividend is payable on shares in issue at 26 March 2010.

The audit fee of £0.02m (2008 £0.02m) was borne by a subsidiary undertaking in both years.

10 Contingencies

Contingent liabilities of £356m (2008 £923m) 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 set out on the following page, 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.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 2006.

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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of InterContinental Hotels Group PLC

We have audited the parent company financial statements of InterContinental Hotels Group PLC for the year ended 31 December 2009 which comprise the Company balance sheet and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Statement of Directors' Responsibilities set out on page 109, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of InterContinental Hotels Group PLC for the year ended 31 December 2009.

Jonathan Adam Stanton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
15 February 2010

Useful information

In this section we present a glossary of terms used in the Annual Report and Financial Statements 2009 and some analyses of our share ownership at the end of 2009.

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.

Candlewood Suites, New York, USA

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

Capital expenditure purchases of property, plant and equipment, intangible assets and associate investments.

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.

Contingencies liabilities that are contingent upon the occurrence of one or more uncertain future events.

Continuing operations operations not classified as discontinued.

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 co-ordinated 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 hotels 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 hotels 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.

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 franchised, managed, owned or leased by IHG.

Room revenue revenue generated from the sale of room nights.

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

Subsidiary undertaking a company over which the Group exercises control.

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

Technology income income received from hotels under franchise and management agreements for the use of IHG's proprietary reservations 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.

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 2009 by type

	Number of shareholders	Percentage of total shareholders	Ordinary shares	Percentage of issued share capital
Category of holdings				
Private individuals	54,888	94.73	21,040,274	7.33
Nominee companies	2,640	4.56	259,923,974	90.57
Limited and public limited companies	274	0.47	2,743,686	0.96
Other corporate bodies	128	0.22	2,621,851	0.91
Pension funds, insurance companies and banks	13	0.02	646,282	0.23
Total	**57,943**	**100**	**286,976,067**	**100**

Shareholder profile as at 31 December 2009 by size

	Number of shareholders	Percentage of total shareholders	Ordinary shares	Percentage of issued share capital
Range of holdings				
1 – 199	35,302	60.93	2,318,294	0.81
200 – 499	11,830	20.42	3,785,499	1.32
500 – 999	5,796	10.00	4,056,528	1.41
1,000 – 4,999	4,078	7.04	7,540,518	2.63
5,000 -9,999	313	0.54	2,171,997	0.76
10,000 – 49,999	303	0.52	6,464,131	2.25
50,000 – 99,999	94	0.16	6,523,992	2.27
100,000 – 499,999	153	0.26	33,368,968	11.63
500,000 – 999,999	31	0.05	22,962,489	8.00
1,000,000 – highest	43	0.07	197,783,651	68.92
Total	**57,943**	**100**	**286,976,067**	**100**

Shareholder profile as at 31 December 2009 by geographical location

	Percentage of issued share capital[1]
Country/Jurisdiction	
England and Wales	59.51
Rest of Europe	10.20
USA (including ADRs)	24.69
Rest of World	5.60
Total	**100**

1 The geographical profile presented is based on an analysis of shareholders (by manager) of 150,000 shares or above where geographical ownership is known. This analysis only captures 84.7% of total issued share capital. Therefore, the known percentage distributions have been multiplied by 100/84.7 (1.181) to achieve the figures shown in the table above.

USEFUL INFORMATION

Investor information

Website and electronic communication

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.ihgplc.com/investors under shareholder centre/reports.

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.

Shareholder Hotel Discount Promotion

IHG is currently operating a promotion for discounted hotel stays (subject to availability) for registered shareholders, through a dedicated, controlled access website. For further details please contact the Company Secretariat at the registered office on 01895 512 000 or email companysecretariat@ihg.com

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 2009, for UK Capital Gains Tax purposes, may be found on the Company's website at www.ihgplc.com/investors under shareholder centre/tax information.

Corporate Responsibility Report

IHG has published an online Corporate Responsibility Report for 2009 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.ihgplc.com/responsibility

Registrar

For enquiries concerning individual shareholdings, notification of a shareholder's change of address and for information on a range of shareholder services please contact the Company's Registrar, Equiniti, on 0871 384 2132† (UK callers) or +44 121 415 7034 (non-UK callers).

Dividend services

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 helpline on 0871 384 2268†. A DRIP application and information booklet are available on the Company's website www.ihgplc.com/investors under shareholder centre/dividends.

Shareholders who would like their dividends to be paid directly into a bank or building society account, or who wish to amalgamate their shareholder accounts in order to avoid duplicate mailing of shareholder communications should contact our Registrar.

Overseas shareholders can have their dividends paid direct to their bank account or by cheque in another major currency. Please contact our Registrar for further details. Charges are payable for this service.

If you think that you have out of date dividend warrants or outstanding dividend payments please contact our Registrar for further information.

Share dealing services

Equiniti offer a postal dealing facility for IHG shares. For more information on this service, call 0871 384 2132†. They also offer a telephone and internet dealing service, Shareview Dealing, which provides a simple and convenient way of buying and selling shares. For telephone dealings, call 08456 037 037 between 8.00am and 4.30pm Monday to Friday, and for internet dealings log on to www.shareview.co.uk

Individual Savings Accounts (ISAs)

Equiniti offer ISAs in IHG shares. For further information please contact our Registrar helpline on 0871 384 2244†.

ShareGift

The Orr Mackintosh Foundation operates this charity share donation scheme for shareholders with small holdings of shares, the value of which makes them uneconomic to sell. Details can be obtained from Equiniti, the ShareGift website www.sharegift.org or by calling ShareGift on 020 7930 3737.

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.

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., our authorised depositary bank (details shown on page 116).

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.ihgplc.com/investors under shareholder centre/ADR holders or by visiting the SEC's website at www.sec.gov/edgar.shtml

†Telephone calls to these numbers are currently charged at 8p per minute if using a BT landline. Other telephony provider costs may vary.

Share price information

The latest share price is available in the financial press, on Ceefax and Teletext and also on the Financial Times Cityline Service, telephone 09058 171690 (calls charged at 75p per minute from a BT landline). Further details of the share price may be found on the Company's website www.ihgplc.com/investors under shareholder centre/share price.

Share price 2009: InterContinental Hotels Group PLC v FTSE 100

Dividend history

The table below details the interim and final dividends per share (pence) and per ADR (cents) paid by IHG since 2003.

	Interim dividend		Final dividend		Total dividend	
	pence	cents	pence	cents	pence	cents
2009	**7.30**	**12.20**	**18.70**	**29.20**	**26.00**	**41.40**
2008*	6.40	12.20	20.20	29.20	26.60	41.40
2007	5.70	11.50	14.90	29.20	20.60	40.70
2006	5.10	9.60	13.30	25.90	18.40	35.50
2005	4.60	8.10	10.70	18.70	15.30	26.80
2004	4.30	7.70	10.00	19.10	14.30	26.80
2003	4.05	6.80	9.45	17.40	13.50	24.20

(Excludes special dividends and capital returns)

* IHG changed the reporting currency of its Group accounts from sterling to US dollars effective from the half-year results as at 30 June 2008. Starting with the interim dividend for 2008, all dividends have first been determined in US dollars and converted into sterling immediately before announcement.

Financial calendar

		2009
Payment of interim dividend of 7.3p per share (12.2 cents per ADR)		2 October
Financial year end		31 December
		2010
Preliminary announcement of annual results		16 February
Final dividend of 18.7p per share (29.2 cents per ADR):	Ex-dividend date Record date	24 March 26 March
Announcement of first quarter results		11 May
Annual General Meeting		28 May
Final dividend of 18.7p per share (29.2 cents per ADR):	Payment date	4 June
Announcement of interim results		10 August
Interim dividend:	Payment date	October
Announcement of third quarter results		9 November
Financial year end		31 December
		2011
Preliminary announcement of annual results		February

Contacts

Registered office

Broadwater Park
Denham
Buckinghamshire
UB9 5HR

Telephone +44 (0) 1895 512 000

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 telephony provider costs may vary.

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

Priority Club Rewards

If you wish to enquire about, or to join Priority Club Rewards, IHG's loyalty programme for frequent travellers, please go to www.priorityclub.com or telephone:

0871 226 1111‡ (UK callers)

+44 (0) 870 607 2582 (non-UK callers) (in Europe, Middle East and Africa) (toll charges apply);

1 888 211 9874 (in US and Canada) (toll free);

00 1 800 272 9273 (in Mexico) (toll free);

+1 801 975 3013 (Spanish) (in Central and South America) (toll charges apply);

+1 801 975 3063 (English) (in Central and South America) (toll charges apply);

+63 2 857 8788 (from most countries in Asia Pacific) (toll charges apply).

‡Telephone calls to this number are charged at 10p per minute. Standard network rates apply. Calls from mobiles will be higher.

Forward-looking statements

Both the Annual Report and Financial Statements 2009 and the Annual Review and Summary Financial Statement 2009 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 the protection of its intellectual property rights; the risks related to identifying, securing and retaining franchise and management 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 2009 and also in any Annual Report of InterContinental Hotels Group PLC on Form 20-F.

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