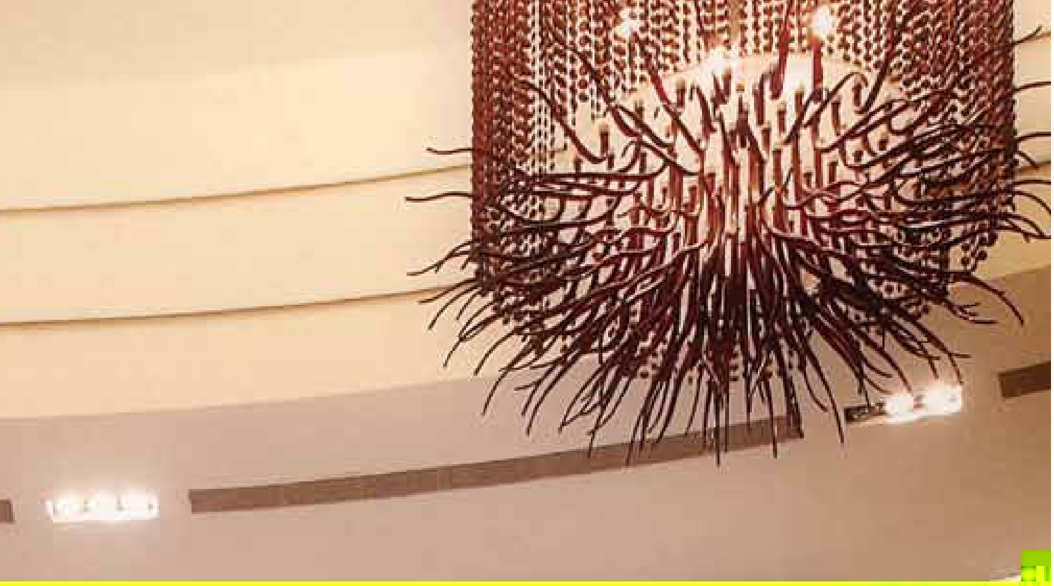
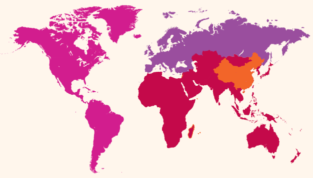


Make a booking at
www.ihg.com

We operate 4,480 hotels and 658,348 rooms internationally

We franchise, manage and own hotels in nearly 100 countries and territories



Annual General Meeting: 25 May 2012

We're a global hotel company, operating seven highly-respected brands internationally.

Our ambition is to become one of the world's great companies by creating Great Hotels Guests Love.

With 4,480 hotels worldwide, we know hospitality.

At the heart of our culture is a commitment to acting responsibly in everything we do.

Crowne Plaza Lijiang, China

Headlines

Total gross revenue

from hotels in IHG's system
up 8% to $20.2bn*

Revenue up 9%† to $1,768m

Operating profit before exceptional items:

Group $559m† (2010 $444m)

The Americas $451m† (2010 $369m)

Europe $104m (2010 $78m)

Asia, Middle East and Africa
$84m† (2010 $82m)

Greater China $67m (2010 $54m)

Revenue per available room∞ up 6.2%

Total number of rooms operating under IHG brands 658,348 (4,480 hotels)

7m new Priority Club Rewards members added

(63m members in total)

69% of rooms revenue delivered through IHG's channels or by Priority Club Rewards members direct to hotel

Total dividend

up 15% at 55.0¢
(sterling equivalent of 34.5p)

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

† Includes two significant liquidated damages receipts in 2011; $10m in The Americas and $6m in Asia, Middle East and Africa.

∞ Total system rooms revenue divided by the number of room nights available.

Holiday Inn Phuket, Thailand

CHAIRMAN'S STATEMENT

Dear Shareholder

"IHG has a business model which has proven to be resilient, a wide geographic spread and a strong balance sheet, meaning we are confident in our ability to continue to deliver strong results."

David Webster
Chairman

PERFORMANCE

Revenue increased nine per cent to $1.8 billion, with operating profit before exceptional items of $559 million, up 26 per cent. Adjusted earnings per share increased 32 per cent from 98.6 cents to 130.4 cents.

The Board is recommending an 11 per cent increase to the final dividend for 2011, taking it to 39.0 cents. This will give a full-year dividend of 55.0 cents per share, 15 per cent higher than 2010. This converts to a sterling full-year dividend of 34.5 pence, up 15 per cent compared with 2010. Subject to shareholder approval, the final dividend will be paid on 1 June 2012.

BOARD

On 30 June 2011 Andy Cosslett stepped down from his role as Chief Executive of IHG. We were very sorry to see Andy leave and I would like to thank him for his outstanding leadership during his six-year tenure. Richard Solomons was appointed Chief Executive on 1 July 2011. Formerly Chief Financial Officer and Head of Commercial Development, Richard has been a member of the Board since IHG listed as an independent company in 2003. He has a proven track record as a business leader and a deep understanding of IHG drawn from his time in a number of senior roles and he has impressed me greatly in his first six months as Chief Executive.

Taking over from Richard as Chief Financial Officer is Tom Singer, who joined us on 26 September 2011 from global healthcare group Bupa, where he had been Group Finance Director since 2008. His broad commercial and international experience makes him an ideal addition to the team, and I am pleased to welcome him to the Board as an Executive Director.

On 13 June 2011, Jim Abrahamson, President, The Americas and an Executive Director of IHG since 1 August 2010, left the Company to take up a role as the CEO of an independent US lodging company. He was succeeded by Kirk Kinsell, who has held a number of senior leadership positions at IHG, including President, Europe, Middle East and Africa, and has been an Executive Director since 1 August 2010.

I am pleased to welcome three additional new Board members to IHG. Tracy Robbins was promoted to Executive Director on 9 August 2011 having been an Executive Committee member since joining IHG in December 2005. She retains her responsibility for global talent management, leadership development, employee reward and group operations support. This appointment recognises both Tracy's exceptional capabilities and the critical importance of attracting, developing and retaining top talent as we implement our ambitious expansion plans.

We made two Non-Executive Director appointments during the year. Dale Morrison, formerly President and CEO of McCain Foods Limited, joined the Board on 1 June 2011 and on 1 July 2011 Luke Mayhew joined as Chairman of the Remuneration Committee, a role he has fulfilled at Brambles Limited since 2005. He replaces Ralph Kugler who has retired from the Board after over eight years at IHG. I would like to welcome both Dale and Luke to the Board and thank Ralph for his highly valuable contribution to the Board and in particular his exemplary chairmanship of the Remuneration Committee.

FINANCIAL POSITION AND SHAREHOLDER RETURNS

Careful control over cash has enabled us to reduce our overall net debt position by $205 million to $538 million. In November 2011 we refinanced our bank debt, putting in place a five-year $1.07 billion facility, providing certainty over funding until November 2016. No returns above normal dividends were made to shareholders in 2011. Total funds returned since March 2004 amount to more than $6 billion.

OUTLOOK

The hard work of our people is central to IHG's success. On behalf of the Board, I would like to thank everyone in IHG for their focus, dedication and commitment during the year.

2012 is likely to be a year dominated by economic and political uncertainty in several geographies. IHG has a business model which has proven to be resilient, a wide geographic spread and a strong balance sheet. This means we are confident in our ability to continue to deliver strong results.

David Webster
Chairman

CHIEF EXECUTIVE'S REVIEW

Our focus is on driving high-quality growth. We will achieve this by further strengthening our existing brands, launching new brands and ensuring our hotels are known for industry-leading guest experiences delivered by talented people and best-in-class delivery systems. The global economy remained uncertain throughout 2011, but the strength of IHG's preferred brands, underpinned by our global systems and scale, drove good growth in revenue and operating profits.

"The next phase of IHG's journey will be characterised by high-quality growth, measured by gains in both market share and margins. Where appropriate, and as opportunities arise, we will invest our free cash flow in the business to accelerate this growth and raise the awareness of our brands."

Richard Solomons
Chief Executive

One of my immediate priorities on being appointed Chief Executive was to ensure that IHG was optimally structured to derive maximum benefit from our scale and expertise in each geographic region. As a result we have reorganised the business into four regions: The Americas; Europe; Asia, Middle East and Africa; and Greater China.

DRIVING HIGH-QUALITY GROWTH

The next phase of IHG's journey will be characterised by high-quality growth, measured by gains in both market share and margins. Where appropriate, and as opportunities arise, we will invest our free cash flow in the business to accelerate this growth and raise the awareness of our brands.

We will continue to drive market share in two ways. We will use our powerful revenue systems and innovations to drive growing revenues into IHG branded hotels. We will also add new and rebranded hotels to our system. In 2011 we delivered 6.2 per cent global RevPAR growth, beating the industry in key markets, such as the US and Greater China. We grew our system size by two per cent in the year and our industry-leading 13 per cent of the active new-build global pipeline demonstrates our ability to continue to increase our share of room supply.

We will achieve progressive and sustainable margin growth and higher returns for owners by capitalising on benefits of scale and efficiency. Our fee-based margin was up nearly five percentage points in 2011, and we expect to continue to drive up our margins over time whilst continuing to reinvest in the business.

There are three clear priorities we have set to achieve our growth strategy and deliver Great Hotels Guests Love:

1. PREFERRED BRANDS

In a competitive world, preferred brands are a prerequisite to deliver market share growth. Our brands are already some of the best recognised in the industry, but in order to drive meaningful increases in share, we have to make them work harder.

The Holiday Inn relaunch continues to drive results for both IHG and our owners. In 2011, the brand once again grew its industry segment premium and for the first time ever was awarded 'Highest in Guest Satisfaction among Mid-Scale Full Service Hotel Chains' in the coveted J.D. Power and Associates® (see page 129) 2011 North American Hotel Guest Satisfaction Index Study℠. We will keep improving the experience for guests and building brand awareness. In 2012 Holiday Inn is the official hotel provider to the London 2012 Olympic and Paralympic Games, which will also coincide with the brand's 60th birthday, so we have plenty of opportunity to talk about the brand to existing and future guests.

We are now applying the same approach we used with Holiday Inn to deliver the Crowne Plaza repositioning programme. Crowne Plaza has been a great success story for IHG and is already the world's fourth largest full-service upscale hotel brand, generating $3.9 billion in total gross revenues per annum. It does suffer from some inconsistencies, however, especially in North America, and a three-phase, multi-year programme will address this, raising all Crowne Plaza hotels to the same standard around the world.

We also see the opportunity to leverage the value of the IHG family of brands through select partnerships. The first

InterContinental Alliance Resort opened during 2011, we continue to expand Holiday Inn Club Vacations and we entered into a joint venture to launch the Holiday Inn Express brand in India.

In 2012 we will launch two new brands to exploit untapped profitable market segments, in the midscale segment in the US and in the upper upscale segment in China. We have had a significant amount of interest from our owners in relation to these new brands and are very excited about the opportunities they will bring.

2. TALENTED PEOPLE

Our brands represent a promise to our guests. It is our people who deliver that promise and bring each brand to life. So aligning all 345,000 people working in our hotels and corporate offices around the world as brand ambassadors is critical to our success.

We need our people to deliver consistent brand experiences to our guests which requires significant effort and innovation and the engagement of our third-party hotel owners. This is a big task but we have made great progress over the past few years with an innovative and effective approach. We have launched our suite of 'People Tools' which help our owners and managers to hire, train, involve and recognise the best employees for their brands, and more recently piloted a unique approach to revitalise the 'back of house' space in our hotels.

Our efforts in this area have been rewarded and for the first time IHG has been placed in Fortune's '100 Best Companies to Work For' in the US as well as winning a host of other awards.

3. BEST-IN-CLASS DELIVERY

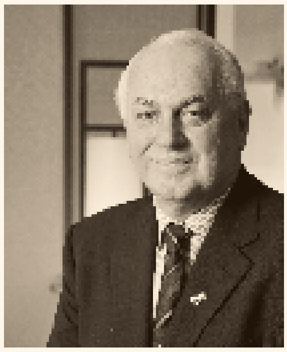
We continue to leverage our global scale and the power of our systems to drive a greater share of industry demand into our hotels. We do this by ensuring our distribution channels are aligned with the needs of our guests, whilst driving the most profitable revenues for our owners. In 2011, 69 per cent of total rooms revenue was booked through IHG's channels or direct to hotels by our 63 million Priority Club Rewards members.

Our innovations continue to lead the industry. During the year we introduced our Best Price Guarantee, designed to drive more guests to book through our direct websites. We are also a founding member of roomkey.com, the first industry-owned online hotels search engine, launched in January 2012, and our mobile apps now generate close to $150 million annually from a standing start two years ago.

Looking ahead, whilst there is considerable uncertainty in some markets of the world, the hotel industry is well-positioned to benefit from long-term trends with continuing demand in emerging markets and China in particular. We remain confident in IHG's ability to deliver high-quality growth through gains in both market share and margins, due to our preferred brands, outstanding people, geographic diversity, robust balance sheet and resilient business model.

Richard Solomons
Chief Executive

Aligning our global view



2011 will always be noted as the year the IHG Owners Association changed its name. From IAHI, the Owners' Association to IHG Owners Association. While that change may not look significant from the outside, to the leaders of this organisation and to our IHG partners, it signifies our partnership in a way that our old name did not.

Our new name reflects our representation of IHG brands across the globe. The former name stood for International Association of Holiday Inns, and since the mid-1980s, we have represented more than just that one brand. Now our name reflects the breadth of work the Association fosters on behalf of all owners. We are deeply grateful to Bill DeForrest, our immediate past chairman, for his passion to move our rebranding forward.

Reflecting on the past year, I see it as a year of strengthened alignment with IHG to better serve our owners. Our volunteer leaders and our IHG partners operate from a shared foundation of mutual respect and a shared understanding that our decisions have real impact for every hotel and owner worldwide. We are aligned to improve return on investment and the value of our assets while growing shareholder value.

Glenn Squires
2012 Chairman
IHG Owners Association

For information on the IHG Owners Association, go to www.owners.org

GREAT BRANDS

Delivering seven great hotel brands and the world's first and largest hotel loyalty programme. A portfolio that covers everything from luxurious upscale hotels in the world's major cities and resorts to reliable family-oriented hotels that offer great service and value.

INTERCONTINENTAL HOTELS & RESORTS

www.intercontinental.com

InterContinental Hotels & Resorts® IN THE KNOW

We've been on the international scene for over 60 years so no-one knows the world like we do. We love to share our knowledge with our guests and they love our understated service and style.

169 hotels | 57,598 rooms | 51 hotels in development pipeline

CROWNE PLAZA HOTELS & RESORTS

www.crowneplaza.com

Crowne Plaza® Hotels & Resorts TRAVELLING FOR SUCCESS

We love to help our guests reach their personal business goals – one after the other – and accelerate their journey to success. We do this by combining the best facilities with great service.

387 hotels | 105,104 rooms | 108 hotels in development pipeline

hotel INDIGO

www.hotelindigo.com

Hotel Indigo® REFRESHINGLY LOCAL

We love the fact that we're different, right down to our local take on design. We're all about neighbourhoods and take every opportunity to share them with our guests.

39 hotels | 4,564 rooms | 59 hotels in development pipeline

Holiday Inn

www.holidayinn.com

Holiday Inn® and Holiday Inn Club Vacations® CHAMPIONING THE REAL YOU

We love to make our guests feel totally comfortable, whether they arrive in a suit or shorts and a T-shirt.

1,240 hotels | 228,256 rooms | 267 hotels in development pipeline

Holiday Inn Express

www.hiexpress.com

Holiday Inn Express® CHAMPIONING THE REAL YOU

One of the world's fastest growing hotel brands, Holiday Inn Express offers convenience and comfort at great value.

2,114 hotels | 196,666 rooms | 470 hotels in development pipeline

STAYBRIDGE SUITES

www.staybridgesuites.com

Staybridge Suites® LIKE FAMILY

We love to make our guests feel like family and our hotels feel like home.

179 hotels | 19,567 rooms | 95 hotels in development pipeline

CANDLEWOOD SUITES

www.candlewoodsuites.com

Candlewood Suites® FEEL FREE

We love giving our guests all the essentials and freedom they need for a home-like stay at great value. We give them room to be themselves, but are always on hand when needed.

285 hotels | 27,500 rooms | 94 hotels in development pipeline

PriorityClubRewards | IHG

www.priorityclub.com

Priority Club® Rewards UNLEASH THE POWER OF YOUR POINTS

The hotel industry's first and largest loyalty programme, Priority Club Rewards gives its 63 million members unparalleled choice and flexibility.

63 million members | On average over 600,000 new members every month

In this section we describe the industry and markets in which we operate and our strategy for winning in this environment. We set out our key performance indicators, describe the development and performance of the business during 2011, and provide a comprehensive review of our approach towards our employees, corporate responsibility and risk management throughout the Group.

BUSINESS REVIEW

InterContinental Boston, US

BUSINESS REVIEW

This Business Review for the financial year ended 31 December 2011 provides a review of the business environment of InterContinental Hotels Group PLC (the Company) and its group of companies (together the Group or IHG), key performance indicators (KPIs), and commentaries on the development and performance of the business. It also covers employee and corporate responsibility matters, including the environment, and a description of the risks and uncertainties impacting the business.

Industry overview

The hotel industry demonstrated its resilience in the challenging 12 months ended 31 December 2011 by continuing the recovery started during 2010. Globally, industry revenue per available room (RevPAR), a key industry metric, was up 5.9 per cent, driven primarily by pricing, or average daily rate. In addition, global room demand surpassed its previous peak and is now at a new high, most notably in the United States (US), the largest lodging market in the world.

IHG performed well over the year with global RevPAR growth of 6.2 per cent, maintaining the Group's 2010 performance. Our number of open hotel rooms grew to 658,348, with 241 new hotels opening worldwide, taking into account the removal of terminated contracts.

IHG closely monitors markets across the globe and follows key industry and business metrics, such as RevPAR, average daily rate, demand and gross domestic product (GDP), to ensure its strategy continues to be sustainable in the changing business environment and suitable for the Group's capabilities, and as such the business remains resilient.

The global hotel market is estimated to be close to 20 million rooms and leading research (Smith Travel Research) calculates there are seven million branded hotel rooms globally, with the remainder a combination of independent hotels, guesthouses and other types of lodging. For four years, IHG has held the largest share of branded rooms, currently at approximately nine per cent of supply, distributed across nearly 100 countries and territories.

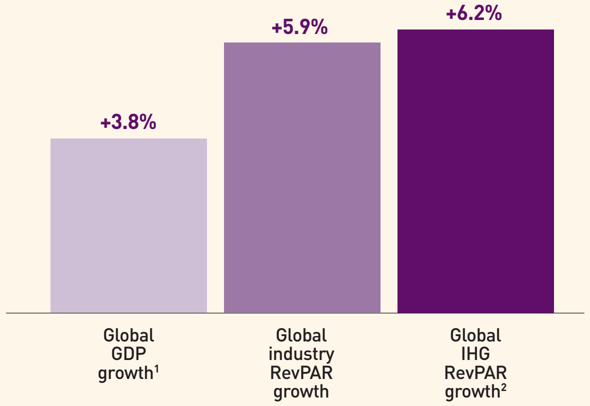
The growth of the branded hotel sector has exceeded that of the unbranded sector over the past 10 years, and although currently less than half of all hotel rooms are branded, the benefits of a brand, such as the greater security and performance of a global reservation system, loyalty schemes and international networks, are clear to many owners. IHG is therefore well-positioned to win the business of owners seeking to grow with a hotel brand. Additionally, IHG and other large hotel companies have the competitive advantage of a global portfolio of brands that suit the different real estate or market opportunities an owner may have.

IHG continues to grow rooms supply and revenues, aided by wider trends:

Global economic trends – we expect 2011's modest economic growth to continue into 2012. Countries in or highly connected to the Eurozone face an uncertain short-term outlook and are likely to see stagnant or negative GDP growth, depending on the outcome of the sovereign debt crisis. Many other developed and major emerging markets are expected to experience modest growth. GDP is a leading indicator for key industry metrics and our expertise combined with consensus opinion for long-term GDP trends allow us to prepare better the business for fluctuations in demand; and

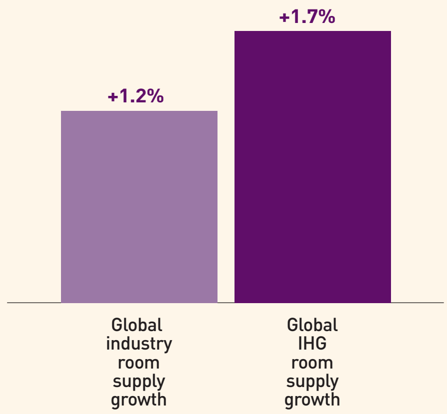
Change in demographics – as developed market populations age, increased leisure time suggests positive implications for travel and hotel demand. Conversely, younger generations are looking to balance work and lifestyles better, indicating an increasing need for quality hotel options. In advanced developing markets, an emerging middle class presents consumer and branded organisations with an opportunity to develop further global networks.

Global economic and industry growth, 2011
(per cent, annualised)



[1]IMF data
[2]Comparable hotels

Global hotel rooms supply growth, 2011
(per cent, annualised)



Our strategy

With a portfolio of preferred brands in the best developed and emerging markets, our talented people are focused on delivering Great Hotels Guests Love and executing a clear set of priorities to achieve our Vision of becoming one of the great companies of the world...

'Where we compete'	'How we win'
Appropriate business model	Portfolio of preferred brands
Best developed and emerging markets	Best-in-class delivery
Relevant consumer segments	Talented people

...achieved through strategic priorities

Growing our core business in the largest markets where scale really counts, and also in key global gateway cities and resort destinations	Profitable market share
	Progressive margins
Seeking opportunities to leverage our scale in new business areas	Sustainable investment
	Responsible business

Strategy is about making distinct and clear choices about where and how to compete in order to achieve a set of business goals.

In addition, an organisation needs to be able to execute these choices with focus and measure its success using a clear set of comprehensively aligned metrics.

IHG's strategy determines a set of choices to balance the quality of our hotels and the speed at which we grow. We measure this through key performance indicators (KPIs) such as growing our RevPAR, our system size and our margins. In addition, we ensure we continue to improve employee engagement and increase the proportion of hotel room demand that we generate for our owners through our proprietary distribution and reservation systems.

Delivering the elements of our strategy

Competing with an appropriate business model

Our business model has a clear focus on franchising and managing hotels, rather than owning them, enabling us to grow at an accelerated pace with limited capital investment. This enables IHG to focus on building strong, preferred brands, leaving asset management and real estate to our local partners with the necessary expertise. With this 'asset-light' approach, IHG also benefits from the reduced volatility of fee-based income streams, as compared with the ownership of assets.

A key characteristic of the franchised and managed business model is that it is highly cash generative, with a high return on capital employed. Currently 87 per cent of operating profit[1] is derived from franchised and managed operations. In some situations, IHG supports its brands by using its capital to build or support the funding of flagship assets in high-demand locations. We plan to recycle capital by selling these assets when the time is right and to reinvest elsewhere in the business and across our portfolio. Recent examples of this include the sale of our InterContinental Buckhead property in Atlanta and the Hotel Indigo San Diego, both of which are now managed by IHG under long-term management agreements.

Choosing not to own hotel assets means the focus of our business is on:

- developing preferred brands that offer a unique set of guest experiences;
- building global demand delivery systems, such as our branded hotel websites and call centres; and
- building relationships with existing and prospective owners who can utilise these systems to create enhanced returns.

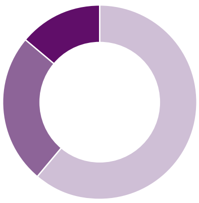
Across the industry, hotel ownership is increasingly becoming separated from hotel operations, with hotel owners using third-parties, such as IHG, to manage their hotels and run their demand delivery systems. We are well-positioned to benefit from this trend with our focus on franchising and managing hotels within our many brands.

1 Before regional and central overheads and exceptional items.

BUSINESS REVIEW continued

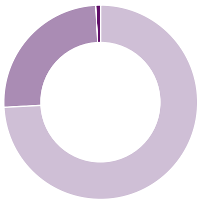
The key features of our business model are represented in the following table and charts:

	BRAND OWNERSHIP	MARKETING AND DISTRIBUTION	STAFF	HOTEL OWNERSHIP	IHG CAPITAL	IHG INCOME
FRANCHISED This is the largest part of our business: 3,832 hotels operate under franchise agreements	IHG	IHG	Third-party	Third-party	None	Fee % of rooms revenue
MANAGED We manage 637 hotels worldwide	IHG	IHG	IHG usually supplies General Manager as a minimum	Third-party	Low/none	Fee % of total revenue plus % of profit
OWNED AND LEASED We own 11 hotels worldwide (less than one per cent of our portfolio)	IHG	IHG	IHG	IHG	High	All revenues and profits



IHG continuing operating profit* by ownership type for the year ended 31 December 2011

*Before regional and central overheads and exceptional items.



IHG global room count by ownership type at 31 December 2011

Competing in the best developed and emerging markets

Globally, supply of hotel rooms has grown at approximately three per cent per annum over the past five years to approximately 20 million rooms in 2011. Competition for this new rooms supply include other branded hotel companies, both large and small, international and domestic, and independently owned hotels.

Taking into account rooms supply in open hotels and those under development, we have a leadership position in 13 of the top 20 markets, globally. These markets alone account for over 80 per cent of global lodging spend. They include large developed markets such as the US, United Kingdom (UK) and Germany, as well as emerging markets like China and India.

Key economic metrics, such as GDP and travel flows, generally indicate current and future levels of hotel demand and we continue to forecast these trends so we can focus on the largest markets. Concentrating growth in the largest markets means IHG and owners can operate more efficiently and benefit from enhanced revenues and reduced costs.

The US is the largest market for branded hotels, with 3.4 million rooms, accounting for 64 per cent of all US rooms available. The segment in the US with the greatest share is midscale, with 1.3 million branded hotel rooms, and IHG's Holiday Inn brand family, which includes Holiday Inn Express and Holiday Inn Club Vacations, along with Holiday Inn itself, is the largest in this segment.

In China, IHG sees the greatest opportunity for growth within any single country and our strategy has been to enter the market early, to develop our relationships with key local partners and grow our presence rapidly. In a country with 0.5 million branded hotel rooms, IHG is the largest international hotel company with over 55,000 rooms across our brands and another 50,000 in the planning phase or under construction. This rapid pace of openings for IHG, which was the first international hotel chain to expand into the country, has been planned against a back-drop of increasing demand drivers for hotels, such as a large emerging middle class and growing domestic and international travel flows.

IHG is also focused on developing in large markets such as the UK and Germany, where we rank second and third, respectively. We anticipate that these markets will remain significant sources of hotel demand and seek to develop lasting relationships with owners and build our brands' awareness and presence.

In certain markets, IHG is able to benefit from and maximise regional similarities and travel patterns by clustering operations and generating efficiencies. Our predominantly managed operations across the Middle East and Asia, which have become significant contributors to our global performance, are examples of clustering operations across multiple brands, owners and markets.

Outside the largest markets, we focus on achieving presence for our brands in key gateway cities with the potential for high demand from business and leisure guests and where our brands can generate revenue premiums.

The number of hotels in planning and under construction, known in the industry as the pipeline, reflect the future supply of hotels.

During 2011, we opened 44,265 rooms in 26 countries and territories, and signed a further 55,424 rooms into our development pipeline across 32 countries. As part of our ongoing commitment to maintaining the quality of our brands, we removed 33,078 rooms during the year. As at 31 December 2011, IHG had the largest pipeline in the industry, with 180,484 rooms in 1,144 hotels across 59 countries. This represents a market share of 13 per cent of all hotels under development, including those that are independent or unaffiliated.

Our pipeline ensures continued growth in new and emerging markets that best suit our strengths and anticipates the future needs of customers. We have committed development teams across both developed and emerging markets ensuring a sizable pipeline in developing markets: during 2011 we opened 8,084 rooms in Greater China, representing nearly 20 per cent of all new rooms opened by IHG across the globe.

Winning with a portfolio of preferred brands focused on relevant consumer segments

We offer hotel brands that appeal to guests with different needs and tastes and have built a portfolio of global brands, growing alongside innovative new brands.

The hotel industry is usually split into segments based upon price point and consumer expectations. IHG is focused on the three segments that together generate over 90 per cent of branded hotel revenues, namely: midscale (broadly three star hotels), upscale (mostly four star), and luxury (five star).

To reflect emerging consumer trends, during 2011 IHG developed two new brands, with one focused on the sizable US midscale market, and the other tailored towards Chinese guests. We expect to launch these brands in 2012, with the first hotels to open from 2013.

As at 31 December 2011, IHG's portfolio of brands included:

InterContinental Hotels & Resorts is IHG's five star brand located in key cities and resort destinations across more than 60 countries worldwide. With over 60 years of experience, our talented people, supported by outstanding facilities, help us differentiate in a competitive segment by understanding that well-travelled and affluent people want to be connected to what is special about a hotel and its destination. The brand's ethos is to empower our people to share their knowledge so guests further enjoy great experiences that enrich their lives, broaden their outlook, and make the most of their time with us. Hotels under this brand tend to be managed by IHG;

Crowne Plaza Hotels & Resorts, in the upscale four star segment, specialises in offering modern business and meeting facilities with a unique service style to provide productive and energising experiences to guests who live life to the fullest and believe travel is essential for their journey to success. IHG is committed to the sustainable evolution of each of its brands, and as such, is working hard to strengthen Crowne Plaza's position in the market over the coming years. A multi-year brand development programme was announced in 2011 to reflect the commitment of IHG and owners to improve the guest experience. The majority of hotels under this brand tend to be operated under franchise agreements in the US and Europe, and are managed by IHG elsewhere in the world;

Hotel Indigo is our boutique and youngest brand, launched in 2004, and focused on a guest who appreciates art and design and who wants to experience something different. Hotel Indigo provides guests with the refreshing design and service experience synonymous with a boutique hotel. Each hotel is unique and reflects its local neighbourhood with design elements such as murals, a vibrant colour palette and locally sourced and seasonal menu items. During 2011, Hotel Indigo was awarded 'Highest in Guest Satisfaction Among Upscale Hotel Chains' in the J.D. Power and Associates® 2011 North American Hotel Guest Satisfaction Index Study℠. Hotels under this brand are mostly operated under franchise agreements;

The **Holiday Inn** brand family, which comprises Holiday Inn, Holiday Inn Express and Holiday Inn Club Vacations, was the world's largest midscale hotel brand by number of rooms at 31 December 2011, and is IHG's most significant operation. Focused on creating an atmosphere where guests can relax, the brand is designed to support both business and leisure travellers. Working with our owners and through their continued investment, the Holiday Inn brand family has all but completed a $1bn refresh, updating its image by upgrading facilities, service and amenities, and ensuring the brand family continues to remain competitive within its midscale markets. Recently, J.D. Power and Associates® ranked Holiday Inn 'Highest in Guest Satisfaction Among Mid-scale Full Service Hotel Chains' in their 2011 North American Hotel Guest Satisfaction Index Study℠. The Holiday Inn brand family adds to IHG's record of firsts, being the first international hotel chain both to open in China in 1984 and to launch a direct bookings website in 1995. The brand family operates predominantly under franchise agreements;

Staybridge Suites is our upscale extended stay brand for guests on longer trips, offering studios and suites complete with full kitchens and separate sleeping and work areas in a sociable, family-like atmosphere. It was the fastest upscale extended stay brand to reach the 50-hotel and 100-hotel milestones and in 2008, opened its first hotel in Europe, in Liverpool, UK. Since then, Staybridge Suites has expanded its footprint with locations including Cairo and Abu Dhabi in the Middle East and, most recently, in St Petersburg in Russia. Staybridge Suites is playing its role in IHG's sponsorship of the London 2012 Olympic and Paralympic Games by opening the Staybridge Suites London Stratford property. Located on the doorstep of the Olympic Village and at the heart of Europe's largest shopping centre, this property will be one of the onsite hotels for the Games. Properties under this brand are operated under a mixture of franchise and management agreements; and

Candlewood Suites, acquired by IHG in 2003, is our North American-focused midscale extended stay brand that gives its guests all the essentials they need for a home-like stay at great value. Candlewood Suites has the most properties under development in North American midscale extended stay lodging and continues to keep its look and feel fresh. During 2011, the brand began a programme to develop a new and refreshed look and design to ensure its guest experience remains competitive and attractive. Properties under this brand tend to be operated under franchise agreements.

BUSINESS REVIEW continued

Winning with our best-in-class delivery

The major benefit IHG brings to guests who stay with us, and owners who invest with us, is the extent of our global hotel network and the demand we deliver through our system. Our system is the combined efforts of our scale and networks, websites, call centres, loyalty schemes and sales and marketing expertise to help guests book and stay with us, and then maintain the relationship with them after they leave. Together, these tools form one of the largest such 'systems' in the industry and are the engine of our business, delivering on average 69 per cent of total rooms revenue.

With continued focus on the success of this global system, we have developed best-in-class marketing and technology to support our hotels and drive incremental revenues. This extensive marketing and technology support ranges from the 'Stay You' campaign for the Holiday Inn relaunch and the 'Best Price Guarantee' campaign to promote booking through IHG's proprietary distribution channels, such as IHG.com and HolidayInn.com, to sophisticated technology allowing for improved targeted marketing, communications, and innovative booking technologies. During 2011, these innovations were best showcased by our leading mobile booking platforms realising $148m in revenues by 31 December 2011 – up from $2.5m in 2009. These mobile platforms, which are tailored to each of our brands, are supported on the major mobile device operating platforms and demonstrate IHG's efforts in anticipating how guests will interact with hotels and book rooms in the future.

SCALE 4,480 hotels 153 million guests annually	BRAND PORTFOLIO Seven preferred hotel brands	PRIORITY CLUB REWARDS 63 million members, contributing over $6.9bn to global system rooms revenue	WEB/MOBILE 11 language sites Eight language apps
REVENUE MANAGEMENT World-class systems	69% room revenue delivery		FOOD AND BEVERAGE Over $4.6bn of Food & Beverage revenue and over 4,500 outlets worldwide
RESERVATIONS SYSTEMS 11 call centres 12 languages	MARKET COVERAGE Leadership in 13 of top 20 markets	SALES FORCE 17,600 sales professionals 3,500 accounts	SYSTEM FUND Annual fund totalling $1.2bn to maintain marketing and systems that generate demand for our hotels

Winning with our talented people and business relationships with others

IHG believes talented and passionate people at all levels of the business are a key competitive advantage to delivering Great Hotels Guests Love and enhanced shareholder returns. Part of this process is empowering our people to deliver our branded guest experience. To do this we need a culture which champions our brands and effectively articulates what our brands mean and who they are for. We have begun this with a focus on being 'BrandHearted'. For IHG, BrandHearted is about fostering a collaborative culture to improve our brands' performance by ensuring the brands are at the heart of all decision-making and actions, and helping our people to bring our brands to life.

IHG recognises that a large proportion of its staff will not come under direct IHG employment and we have initiatives in place to help our owners deliver our brands and fulfil guests' needs. We have extensive induction, communication, development and recognition programmes aligned under our employment brand 'Room to be yourself'. These programmes provide a supportive environment that help our people to be successful and realise our Vision of becoming one of the great companies of the world by delivering the right experiences to our guests through shared values and living our brands.

Our talented people create our culture, and IHG is aligned around great values which are consistently brought to life through a suite of five IHG behaviours, the 'Winning Ways':

- do the right thing;
- show we care;
- aim higher;
- celebrate difference; and
- work better together.

See pages 27 to 30 for more information.

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 breadth of its brands, market segments and geographical coverage. For example, IHG's largest third-party hotel owner controls just two per cent of the Group's total room count as at 31 December 2011.

IHG continued to enhance relationships with suppliers and streamline its procurement processes during 2011. With a focus on sourcing high-quality goods and services at the most competitive prices and employing best-practice throughout the Group, IHG strives to ensure enhanced value for the Group, our hotel owners and shareholders.

IHG is proud of its strong and important relationship with the IHG Owners Association, the organisation that represents owners of hotels under IHG's brands across the world. IHG meets with the IHG Owners Association, in large and small groups, on a regular basis and works with them to support and facilitate the continued development of IHG's brands and systems. During 2011, the combined work of the two organisations supported several enhancements to the IHG system.

Examples include:

Holiday Inn relaunch – the near completion of the $1bn global relaunch of the Holiday Inn brand family delivered through joint owner and IHG investment;

Crowne Plaza repositioning programme – the global repositioning of the Crowne Plaza brand launched in 2011 to bring every hotel up to a leading standard offering modern business and meetings facilities;

roomkey.com – an online search engine, founded by six of the world's leading hotel companies – IHG, Choice Hotels International, Hilton, Hyatt, Marriot and Wyndham Hotel Group. The site provides consumers with the ability to compare and contrast room options across multiple hotel brands, ultimately booking on a hotel's branded website; and

IHG Owners Association rebranding – the rebranding of the International Association of Holiday Inns (IAHI), the Owners' Association as the IHG Owners Association to reflect more accurately its representation of the portfolio of IHG brands and demonstrate the Association's commitment to the BrandHearted journey.

Measuring our success

We have a holistic set of carefully selected key performance indicators (KPIs) to monitor our success in achieving our strategy. These are organised around the elements of our strategy: 'Where we compete', focusing on the appropriate business model, best developed and emerging markets, and consumer segments; and 'How we win', focusing on our corporate priorities of preferred brands, talented people, and best-in-class delivery.

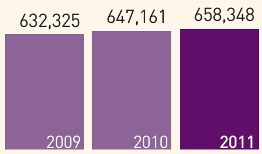
In particular, we use the following measures to monitor our performance:

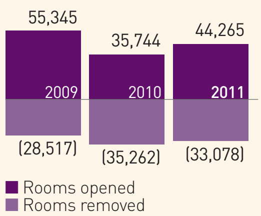
- market share by rooms supply;
- pricing and revenue premiums;
- system contribution – the proportion of business delivered to our hotels by our dedicated IHG booking channels (our 'system');
- employee engagement; and
- responsible business practices.

These KPIs are used to measure the Group's and our peoples' progress on our journey to delivering Great Hotels Guests Love and becoming one of the great companies of the world.

Our performance against these KPIs over the 2009-2011 period is summarised in the following tables:

Where we compete

<table>
<tr><th>Strategic priorities</th><th>KPIs</th><th>Current status and 2011 development</th><th>2012 priorities</th></tr>
<tr>
<td>Best developed and emerging markets
To accelerate profitable growth of our core business in the largest markets where presence and scale really count, and also in key global gateway cities. Seeking opportunities to benefit from our scale in new business areas.</td>
<td>

Net rooms supply

</td>
<td>• System size grown to 658,348 rooms;
• Over 90 per cent of signings in scale markets, key global gateway cities and resort destinations;
• 14 signings of Hotel Indigo and Staybridge Suites outside of North America; and
• 241 hotels opened globally.</td>
<td>• Accelerate growth strategies in quality locations in agreed scale markets; and
• continue to leverage scale.</td>
</tr>
</table>

BUSINESS REVIEW continued

How we win – Delivering Great Hotels Guests Love

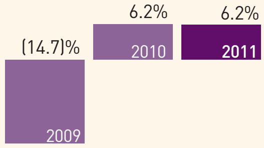
Strategic priorities	KPIs	Current status and 2011 development	2012 priorities

Preferred brands

Strategic priorities

To operate a portfolio of preferred brands attractive to both owners and guests that have clear market positions and differentiation in the eyes of the guest.

KPIs



Global RevPAR growth/(decline)
Comparable hotels, constant $

Current status and 2011 development

- Near completion of the Holiday Inn relaunch;
- launched global repositioning programme for our Crowne Plaza brand;
- developed two new brands to further capture opportunities in North America and China; and
- grew our industry-leading loyalty programme to 63 million members.

2012 priorities

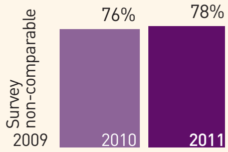
- Build upon the success of the Holiday Inn relaunch with the repositioning of Crowne Plaza;
- continue development of our brand portfolio with further signings of our newer brands in expanding markets; and
- increase IHG business from Priority Club Rewards' members.

Talented people

Strategic priorities

Creating hotels that are well run, with brands brought to life by people who are proud of the work they do.

KPIs



Employee engagement scores

Current status and 2011 development

- Training delivered to all senior managers on brand leadership;
- training delivered to 60 per cent of franchised hotels to deliver our branded guest experience;
- jointly hosted our global recognition event – 'Celebrate Service' week – with the IHG Owners Association, with over 3,000 hotels and offices participating; and
- supported 49 employees from 22 countries to manage the athletes' accommodation and placed 10 people in LOCOG head office roles, as part of our London 2012 Olympic and Paralympic sponsorship.

2012 priorities

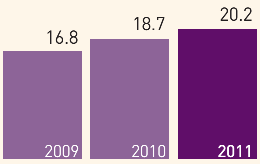
- Strengthen brand capabilities, including cascading brand training to all our leaders;
- strengthen IHG's employment brand, particularly through the use of new media to make the Group an employer of choice;
- develop our talent pipeline to meet our commercial goals; and
- continue to develop compelling people offer to our franchisees.

Best-in-class delivery

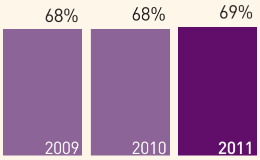
Strategic priorities

To generate higher returns for owners and IHG through increased revenue share, improved operating efficiency and growing margins.

KPIs



Total gross revenue
Actual $bn



System contribution to revenue
(reservations channels and Priority Club Rewards' members direct to hotels)
As percentage of rooms revenue

Current status and 2011 development

- Strengthened revenue streams from mobile booking channels;
- established strategic industry partnerships to develop roomkey.com;
- strengthened coverage of our global sales force; and
- grew our industry-leading loyalty programme, contributing over $6.9bn to global system rooms revenue.

2012 priorities

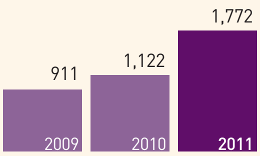
- Optimise revenue from third-party, partner and IHG websites;
- strengthen global sales force effectiveness; and
- ensure IHG's industry-leading system of delivering demand and revenue to hotels retains competitive advantage.

Responsible business

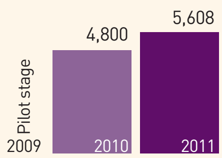
Strategic priorities

To take a proactive stance and seek creative solutions through innovation and collaboration on environment and community issues, and to drive increased value for IHG, owners, guests and the communities in which we operate.

KPIs



Hotels signed-up to 'Green Engage'
Hotels, cumulative



Pupils enrolled with 'IHG Academy'
Students enrolled

Current status and 2011 development

- Exceeded our 'Green Engage' programme target to enrol 1,700 hotels;
- 'IHG Academy' programme expanded to every IHG operating region and student participation up by 17 per cent; and
- led a Cornell University study on developing an industry standard for carbon measurement.

2012 priorities

- Enrol 50 per cent of IHG hotels in 'Green Engage' by the end of 2012;
- achieve energy savings of six per cent to 10 per cent in our owned and managed estate by end of 2012 (on a per available room night basis);
- continue to drive carbon strategy work to develop an industry standard for measuring carbon emission reduction;
- create new opportunities for communities by growing the 'IHG Academy' to more countries and increasing the student base; and
- continue to use social media to drive stakeholder engagement.

Group performance

Group results

	12 months ended 31 December		
	2011 $m	2010 $m	% change
Revenue			
Americas	**830**	807	2.9
Europe	**405**	326	2.4
AMEA	**216**	213	1.4
Greater China	**205**	178	15.2
Central	**112**	104	7.7
	1,768	1,628	8.6
Operating profit			
Americas	**451**	369	22.2
Europe	**104**	78	33.3
AMEA	**84**	82	2.4
Greater China	**67**	54	24.1
Central	**(147)**	(139)	(5.8)
Operating profit before exceptional items	**559**	444	25.9
Exceptional operating items	**35**	15	133.3
	594	459	29.4
Net financial expenses	**(62)**	(62)	–
Profit before tax	**532**	397	34.0
Earnings per ordinary share			
Basic	**159.2¢**	101.7¢	56.5
Adjusted	**130.4¢**	98.6¢	32.3

Revenue increased by 8.6% to $1,768m and operating profit before exceptional items increased by 25.9% to $559m during the 12 months ended 31 December 2011.

The 2011 results reflect continued RevPAR growth, with an overall RevPAR increase of 6.2%, including a 2.5% increase in average daily rate. The results also benefit from overall system size growth of 1.7% year-on-year to 658,348 rooms. RevPAR growth remained strong throughout the year across the Group although there was some deterioration in Europe in the fourth quarter reflecting macroeconomic conditions.

Operating profit improved in each of the regions. RevPAR growth of 7.5% and 4.7% in The Americas and Europe respectively helped to drive operating profit increases of $82m and $26m in these regions. Operating profit in AMEA rose by $2m despite an estimated adverse impact of the events of the Arab Spring and the natural disasters in Japan and New Zealand of $11m. Continued strong economic growth in Greater China led to operating profit growth of $13m as RevPAR grew by 10.7% and system size increased by 13.7%.

At constant currency, central overheads increased from $139m in 2010 to $143m in 2011 ($147m at actual currency), driven by increased investment to support growth in the business, offsetting non-recurring bonus costs.

As a result of growth in the business, together with strong cost control, operating profit margin was 40.6%, up 4.9 percentage points on 2010, after adjusting for owned and leased hotels, The Americas and Europe managed leases and significant liquidated damages received in 2011. This growth approximates to one percentage point after adjusting for a number of one-off benefits.

The average US dollar exchange rate to sterling weakened during 2011 (2011 $1=£0.62; 2010 $1=£0.65). Translated at constant currency, applying 2010 exchange rates, revenue increased by 6.8% and operating profit increased by 24.8%.

Profit before tax increased by $135m from $397m in 2010 to $532m. Adjusted earnings per ordinary share increased by 32.3% to 130.4¢.

Total gross revenue

	12 months ended 31 December		
	2011 $bn	2010 $bn	% change
InterContinental	**4.4**	4.2	4.8
Crowne Plaza	**3.9**	3.5	11.4
Holiday Inn	**6.0**	5.8	3.4
Holiday Inn Express	**4.4**	4.0	10.0
Staybridge Suites	**0.6**	0.5	20.0
Candlewood Suites	**0.5**	0.4	25.0
Other	**0.4**	0.3	33.3
Total	**20.2**	18.7	8.0

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 increased by 8.0% from $18.7bn in 2010 to $20.2bn in 2011. All brands grew total gross revenue, with increases of over 10% compared to 2010 in a number of key brands.

BUSINESS REVIEW continued

Global hotel and room count

At 31 December	Hotels 2011	Hotels Change over 2010	Rooms 2011	Rooms Change over 2010
Analysed by brand				
InterContinental	**169**	(2)	**57,598**	(831)
Crowne Plaza	**387**	(1)	**105,104**	(1,051)
Holiday Inn*	**1,240**	(7)	**228,256**	(1,861)
Holiday Inn Express	**2,114**	39	**196,666**	5,438
Staybridge Suites	**179**	(9)	**19,567**	(1,195)
Candlewood Suites	**285**	(3)	**27,500**	(753)
Hotel Indigo	**39**	1	**4,564**	16
Other	**67**	25	**19,093**	11,424
Total	**4,480**	43	**658,348**	11,187
Analysed by ownership type				
Franchised	**3,832**	49	**489,071**	9,751
Managed	**637**	(2)	**164,993**	2,282
Owned and leased	**11**	(4)	**4,284**	(846)
Total	**4,480**	43	**658,348**	11,187

* Included 7 Holiday Inn Club Vacations (2,928 rooms) (2010: 6 hotels, 2,892 rooms).

During 2011, the IHG global system (the number of hotels and rooms which are franchised, managed, owned or leased by the Group) increased by 43 hotels (11,187 rooms). Openings of 241 hotels (44,265 rooms) were driven by continued expansion in the US, in particular within the Holiday Inn brand family and Greater China. These openings offset the removal of 198 hotels (33,078 rooms). Removals in the US included 43 hotels (6,994 rooms) which were removed from the system as part of the renegotiation of the management contract with Hospitality Properties Trust, a major US owner group. Other openings included the Venetian and Palazzo resorts, under an InterContinental Alliance relationship (6,986 rooms, included in franchised) as well as 25 hotels (4,796 rooms) managed on US army bases.

Global pipeline

At 31 December	Hotels 2011	Hotels Change over 2010	Rooms 2011	Rooms Change over 2010
Analysed by brand				
InterContinental	**51**	(9)	**17,623**	(1,751)
Crowne Plaza	**108**	(15)	**34,643**	(4,351)
Holiday Inn*	**267**	(46)	**50,750**	(6,755)
Holiday Inn Express	**470**	(24)	**52,201**	(1,018)
Staybridge Suites	**95**	(6)	**10,026**	(734)
Candlewood Suites	**94**	(26)	**8,062**	(2,444)
Hotel Indigo	**59**	(3)	**7,179**	(448)
Other	**–**	(2)	**–**	(6,874)
Total	**1,144**	(131)	**180,484**	(24,375)
Analysed by ownership type				
Franchised	**853**	(117)	**96,513**	(17,427)
Managed	**291**	(14)	**83,971**	(6,948)
Total	**1,144**	(131)	**180,484**	(24,375)

* Included 1 Holiday Inn Club Vacations (658 rooms) (2010: nil).

Global pipeline signings

At 31 December	Hotels 2011	Hotels Change over 2010	Rooms 2011	Rooms Change over 2010
Total	**356**	37	**55,424**	(174)

At the end of 2011, the pipeline totalled 1,144 hotels (180,484 rooms). The IHG pipeline represents hotels and rooms where a contract has been signed and the appropriate fees paid. The continued global demand for IHG brands is demonstrated by over 50% of pipeline rooms being outside of The Americas region, including 28% in Greater China.

Signings of 356 hotels (55,424 rooms) represented an increase in the number of hotels signed from 2010 levels (319 hotels). Momentum for the Hotel Indigo brand continued into 2011 with 19 signings, including entry into the Russian market as well as the first Hotel Indigo resort in Phuket, Thailand.

During 2011, the opening of 44,265 rooms contributed to a net pipeline decline of 24,375 rooms. Active management out of the pipeline of deals that have become dormant or no longer viable contributed a reduction of 35,534 rooms.

The Americas

Americas strategic role

To maximise the performance and growth of our portfolio of preferred brands, focusing on our core midscale and upscale segments, mostly through franchise agreements.

2012 priorities

- Execute our strategic plans to become a BrandHearted organisation by delivering Great Hotels Guests Love and increasing revenue share;
- successfully launch a new midscale brand;
- build upon the success of the Holiday Inn relaunch by improving hotel performance and unit growth;
- execute the multi-year programme to reposition Crowne Plaza; and
- further deploy IHG tools throughout the franchised estate, across revenue management, channel management, responsible business practices and People Tools.

Americas results

	12 months ended 31 December		
	2011 $m	2010 $m	% change
Revenue			
Franchised	**502**	465	8.0
Managed	**124**	119	4.2
Owned and leased	**204**	223	(8.5)
Total	**830**	807	2.9
Operating profit before exceptional items			
Franchised	**431**	392	9.9
Managed	**52**	21	147.6
Owned and leased	**17**	13	30.8
	500	426	17.4
Regional overheads	**(49)**	(57)	14.0
Total	**451**	369	22.2

Americas comparable RevPAR movement on previous year

	12 months ended 31 December 2011
Franchised	
Crowne Plaza	6.0%
Holiday Inn	6.3%
Holiday Inn Express	7.9%
All brands	7.2%
Managed	
InterContinental	8.6%
Crowne Plaza	8.8%
Holiday Inn	9.9%
Staybridge Suites	8.0%
Candlewood Suites	8.1%
All brands	8.8%
Owned and leased	
InterContinental	11.7%

Revenue and operating profit before exceptional items increased by $23m (2.9%) to $830m and by $82m (22.2%) to $451m respectively.

Franchised revenue increased by $37m (8.0%) to $502m. Royalties growth of 8.5% was driven by RevPAR gains across the estate of 7.2%, including 7.9% for Holiday Inn Express, and was further boosted by continued improvement in the royalty rate achieved. Operating profit increased by $39m (9.9%) to $431m also benefiting from lower bad debt experience.

Managed revenue increased by $5m (4.2%) to $124m and operating profit increased by $31m (147.6%) to $52m. Revenue and operating profit included $59m (2010 $71m) and $1m (2010 $1m) respectively from properties that are structured, for legal reasons, as operating leases but with the same characteristics as management contracts. Excluding properties operated under this arrangement, as well as the benefit of a $10m liquidated damages receipt in 2011 and a $10m year-on-year benefit from the conclusion of a specific guarantee negotiation relating to one hotel, revenue grew by $7m. Growth was driven by a RevPAR increase of 8.8% across the estate. Although year-end system size was 6.0% lower than at the end of 2010, due to the phasing of removals towards the end of the year, rooms available during the year actually grew by 4.5%. Operating profit grew by $11m on the same basis, also benefiting from increased joint venture distributions.

Owned and leased revenue declined by $19m (8.5%) and operating profit grew by $4m (30.8%) to $17m. In the first half of the year, Staybridge Suites Denver Cherry Creek was sold and converted to a franchise contract, whilst Holiday Inn Atlanta-Gwinnett Place and Hotel Indigo San Diego were sold and converted to management contracts. Excluding the year-on-year impact of these and prior year disposals, owned and leased revenue grew by $8m (4.2%) and operating profit by $7m (77.8%) reflecting RevPAR growth of 10.3%, including 11.2% at the InterContinental New York Barclay. Operating profit for 2011 includes a $4m year-on-year benefit from lower depreciation recorded for the InterContinental New York Barclay since the hotel was categorised as 'held for sale' in the first quarter of 2011, subsequent to which no depreciation was charged. Operating profit growth was, however, adversely impacted by $3m of one off re-organisation costs relating to one hotel in 2011.

Regional overheads decreased by $8m (14.0%) to $49m, mainly reflecting a year-on-year reduction of $6m in costs for claims in a self-insured healthcare benefit plan.

BUSINESS REVIEW continued

Americas hotel and room count

At 31 December	Hotels 2011	Hotels Change over 2010	Rooms 2011	Rooms Change over 2010
Analysed by brand				
InterContinental	**52**	(4)	**17,598**	(1,522)
Crowne Plaza	**188**	(21)	**50,002**	(7,071)
Holiday Inn*	**816**	(2)	**145,821**	(1,754)
Holiday Inn Express	**1,874**	27	**162,935**	3,068
Staybridge Suites	**174**	(9)	**18,820**	(1,194)
Candlewood Suites	**285**	(3)	**27,500**	(753)
Hotel Indigo	**33**	(2)	**3,973**	(281)
Other	**51**	29	**15,549**	12,330
Total	**3,473**	15	**442,198**	2,823
Analysed by ownership type				
Franchised	**3,266**	36	**398,680**	6,144
Managed	**201**	(18)	**41,222**	(2,626)
Owned and leased	**6**	(3)	**2,296**	(695)
Total	**3,473**	15	**442,198**	2,823

* Included 7 Holiday Inn Club Vacations (2,928 rooms) (2010: 6 hotels, 2,892 rooms).

The Americas hotel and room count in the year increased by 15 hotels (2,823 rooms) to 3,473 hotels (442,198 rooms). Openings of 168 hotels (27,107 rooms) included the Venetian and Palazzo resorts, under an InterContinental Alliance relationship (6,986 rooms, included in franchised) and 25 hotels managed as part of the US government's Privatization of Army Lodgings initiative. The Holiday Inn and Holiday Inn Express brands generated openings of 113 hotels (12,269 rooms) and IHG's extended stay brands, Staybridge Suites and Candlewood Suites, achieved openings of 22 hotels (2,036 rooms). Removals of 153 hotels (24,284 rooms) were mainly from Crowne Plaza and Holiday Inn hotels, and included 43 hotels (6,994 rooms) which were removed as part of the renegotiation of the management contract with Hospitality Properties Trust.

Americas pipeline

At 31 December	Hotels 2011	Hotels Change over 2010	Rooms 2011	Rooms Change over 2010
Analysed by brand				
InterContinental	**5**	–	**1,340**	–
Crowne Plaza	**22**	(5)	**5,249**	(420)
Holiday Inn*	**158**	(29)	**22,051**	(3,209)
Holiday Inn Express	**372**	(35)	**34,360**	(2,651)
Staybridge Suites	**86**	(10)	**8,895**	(1,221)
Candlewood Suites	**94**	(26)	**8,062**	(2,444)
Hotel Indigo	**38**	(8)	**4,493**	(1,240)
Other	**–**	(2)	**–**	(6,874)
Total	**775**	(115)	**84,450**	(18,059)
Analysed by ownership type				
Franchised	**765**	(113)	**82,287**	(17,785)
Managed	**10**	(2)	**2,163**	(274)
Total	**775**	(115)	**84,450**	(18,059)

* Included 1 Holiday Inn Club Vacations (658 rooms) (2010: nil).

The Americas pipeline totalled 775 hotels (84,450 rooms) as at 31 December 2011. Overall signings of 30,109 rooms were in line with 2010 levels. Notable signings included Hotel Indigo properties in Guadalajara and Boca del Rio in Mexico, as well as Lower East Side, Manhattan in the US. The overall pipeline reduced by 115 hotels (18,059 rooms) compared to 2010.

Europe

Europe strategic role

To focus growth in priority markets and across key cities, and improve underlying margin through better operational performance.

2012 priorities

- Execute our strategic plans to become a BrandHearted organisation by delivering Great Hotels Guests Love and increasing revenue share in our chosen markets;
- strengthen our brand portfolio by building upon the success of the Holiday Inn relaunch and expanding the footprint of Hotel Indigo;
- drive awareness through strategic partnerships including sponsorship of London 2012 Olympic and Paralympic Games; and
- deliver operational excellence and responsible business practices at our hotels and localise systems and tools to strengthen revenue out-performance.

Europe results

	12 months ended 31 December		
	2011 $m	2010 $m	% change
Revenue			
Franchised	**86**	76	13.2
Managed	**118**	70	68.6
Owned and leased	**201**	180	11.7
Total	**405**	326	24.2
Operating profit before exceptional items			
Franchised	**65**	55	18.2
Managed	**26**	17	52.9
Owned and leased	**49**	38	28.9
	140	110	27.3
Regional overheads	**(36)**	(32)	(12.5)
Total	**104**	78	33.3

Europe comparable RevPAR movement on previous year

	12 months ended 31 December 2011
Franchised	
All brands	4.0%
Managed	
All brands	5.5%
Owned and leased	
InterContinental	10.9%

Revenue and operating profit before exceptional items increased by $79m (24.2%) to $405m and by $26m (33.3%) to $104m respectively.

Franchised revenue increased by $10m (13.2%) to $86m and operating profit by $10m (18.2%) to $65m. At constant currency, revenue increased by 7.9% and operating profit increased by 12.7%. Growth was mainly driven by royalties growth of 11.4% (5.9% at constant currency) reflecting RevPAR growth of 4.0%, together with an increase in system size. Revenues associated with new signings, relicensing and terminations increased by $2m.

Managed revenue increased by $48m to $118m (68.6%) and operating profit increased by $9m to $26m (52.9%). At constant currency, revenue increased by 61.4% whilst operating profit increased by 47.1%. During the year, two properties were converted from management contracts to an operating lease structure with the same characteristics as management contracts. Revenues recorded under the operating lease structure were $46m in 2011 (2010 $nil), with operating profits of $nil (2010 $nil). Excluding the impact of properties under the operating lease structure and on a constant currency basis, operating profit increased by $8m (47.1%) reflecting RevPAR growth of 5.5%, together with the year-on-year benefit of a $3m charge in 2010 with regard to guarantee obligations for one hotel. On the same basis, revenue fell slightly as a result of a minor change in the allocation of income to the managed estate.

In the owned and leased estate, revenue increased by $21m (11.7%) to $201m and operating profit increased by $11m (28.9%), or at constant currency by 6.7% and 21.1% respectively. During the year, IHG exited from the lease for Holiday Inn Express Essen, with a minor impact on revenue and operating profit. RevPAR growth of 10.9% benefited from average daily rate growth of 10.3% across the year.

The InterContinental London Park Lane and the InterContinental Paris Le Grand delivered strong year-on-year RevPAR growth of 7.3% and 14.5% respectively.

BUSINESS REVIEW continued

Europe hotel and room count

At 31 December	Hotels 2011	Hotels Change over 2010	Rooms 2011	Rooms Change over 2010
Analysed by brand				
InterContinental	**30**	–	**9,664**	(341)
Crowne Plaza	**86**	8	**19,725**	2,078
Holiday Inn	**290**	(8)	**46,465**	(1,313)
Holiday Inn Express	**198**	10	**23,181**	1,515
Staybridge Suites	**3**	–	**443**	–
Hotel Indigo	**5**	3	**407**	297
Total	**612**	13	**99,885**	2,236
Analysed by ownership type				
Franchised	**509**	14	**76,811**	2,356
Managed	**101**	–	**22,157**	33
Owned and leased	**2**	(1)	**917**	(153)
Total	**612**	13	**99,885**	2,236

During 2011, Europe system size increased by 13 hotels (a net increase of 2,236 rooms) to 612 hotels (99,885 rooms). Activity included openings of 37 hotels (6,167 rooms), an increase from 27 hotels and 4,419 rooms in 2010, and removals of 24 hotels (3,931 rooms). The net decrease of eight Holiday Inn hotels comprised nine openings and 17 removals, five of which relate to the Holiday Inn brand relaunch. There were three Hotel Indigo openings in the UK in 2011, bringing the total Hotel Indigo count for Europe to five. Two InterContinental hotels, in Moscow and Porto, opened in 2011, representing a re-entry for the brand into the Russian and Portuguese markets.

Europe pipeline

At 31 December	Hotels 2011	Hotels Change over 2010	Rooms 2011	Rooms Change over 2010
Analysed by brand				
InterContinental	**5**	(5)	**1,310**	(710)
Crowne Plaza	**12**	(3)	**2,953**	(935)
Holiday Inn	**25**	(4)	**4,939**	(878)
Holiday Inn Express	**43**	–	**5,942**	218
Staybridge Suites	**2**	–	**283**	–
Hotel Indigo	**11**	–	**1,255**	183
Total	**98**	(12)	**16,682**	(2,122)
Analysed by ownership type				
Franchised	**82**	(1)	**11,999**	(166)
Managed	**16**	(11)	**4,683**	(1,956)
Total	**98**	(12)	**16,682**	(2,122)

There were 38 hotel signings (5,779 rooms) in 2011, down from 51 hotel signings (7,479 rooms) in 2010, strengthening IHG's presence in established markets such as the UK, Germany and the Netherlands and extending into newer markets such as Turkey and Russia. Demand was particularly strong in the midscale segment which represented 65% of room signings. There were five further signings for IHG's lifestyle brand, Hotel Indigo, including further expansion in the UK and entry into the Russian market. There were also seven Crowne Plaza signings including three in the developing Turkish market.

Asia, Middle East and Africa (AMEA)

AMEA strategic role

To drive profitable growth in emerging markets, key cities and resort locations.

2012 priorities

- Execute our strategic plans to become a BrandHearted organisation by delivering Great Hotels Guests Love and increasing revenue share;
- grow distribution of our brands in key strategic markets, especially India and resort locations;
- strengthen Holiday Inn Express, building upon the success of the Holiday Inn relaunch; and
- where appropriate, localise IHG channels, systems, processes, brands, responsible business practices and People Tools to maximise efficiency, talent development, consumer preference and margin performance.

AMEA results

	12 months ended 31 December		
	2011 $m	2010 $m	% change
Revenue			
Franchised	**19**	15	26.7
Managed	**151**	155	(2.6)
Owned and leased	**46**	43	7.0
Total	**216**	213	1.4
Operating profit before exceptional items			
Franchised	**12**	8	50.0
Managed	**87**	88	(1.1)
Owned and leased	**5**	4	25.0
	104	100	4.0
Regional overheads	**(20)**	(18)	(11.1)
Total	**84**	82	2.4

AMEA comparable RevPAR movement on previous year

	12 months ended 31 December 2011
Franchised	
All brands	1.7%
Managed	
All brands	0.6%

Revenue and operating profit before exceptional items increased by $3m (1.4%) to $216m and by $2m (2.4%) to $84m respectively. The region's results were adversely impacted by the political instability throughout 2011 in the Middle East, together with the natural disasters in Japan and New Zealand.

Franchised revenue increased by $4m (26.7%) to $19m and operating profit by $4m (50.0%) to $12m. At constant currency, revenue increased by 20.0% and operating profit increased by 37.5%, which includes four properties which were converted from management contracts to franchise arrangements during the year. RevPAR in the franchised estate grew by 1.7%. Excluding Egypt, Bahrain and Japan, RevPAR grew by 4.4%.

Managed revenue decreased by $4m (2.6%) to $151m and operating profit decreased by $1m (1.1%) to $87m. At constant currency, revenue decreased by 7.7% and operating profit by 5.7%. The events of the Arab Spring together with the natural disasters in Japan and New Zealand had an estimated adverse impact of $11m on the results, whilst there was a further $4m adverse impact due to changes to certain management contract terms. Results did however benefit from a liquidated damages receipt of $6m during the year. RevPAR grew by 0.6% compared to 2010 and by 5.7% excluding Egypt, Bahrain and Japan.

In the owned and leased estate, revenue increased by $3m (7.0%) to $46m and operating profit increased by $1m (25.0%), or at constant currency by 9.3% and 25.0% respectively.

BUSINESS REVIEW continued

AMEA hotel and room count

	Hotels		Rooms	
At 31 December	2011	Change over 2010	2011	Change over 2010
Analysed by brand				
InterContinental	**64**	(2)	**20,425**	(193)
Crowne Plaza	**61**	3	**16,921**	932
Holiday Inn	**77**	(2)	**18,032**	(341)
Holiday Inn Express	**8**	(3)	**1,857**	(278)
Staybridge Suites	**2**	–	**304**	(1)
Other	**16**	(3)	**3,544**	(646)
Total	**228**	(7)	**61,083**	(527)
Analysed by ownership type				
Franchised	**54**	(1)	**12,617**	1,257
Managed	**172**	(6)	**47,890**	(1,786)
Owned and leased	**2**	–	**576**	2
Total	**228**	(7)	**61,083**	(527)

AMEA hotel and room count decreased by seven hotels (527 rooms) to 228 hotels (61,083 rooms). Openings of 10 hotels (2,907 rooms) were offset by the removal of 17 hotels (3,434 rooms). Hotel openings were mainly in the Crowne Plaza and Holiday Inn brands, including notably the entry of the Crowne Plaza brand into the Vietnam market (in West Hanoi and Danang) and a second Holiday Inn resort in Phuket, Thailand.

AMEA pipeline

	Hotels		Rooms	
At 31 December	2011	Change over 2010	2011	Change over 2010
Analysed by brand				
InterContinental	**19**	(7)	**5,094**	(2,142)
Crowne Plaza	**21**	(5)	**6,729**	(1,605)
Holiday Inn	**43**	(13)	**10,380**	(3,229)
Holiday Inn Express	**27**	12	**5,681**	2,293
Staybridge Suites	**7**	4	**848**	487
Hotel Indigo	**5**	3	**852**	470
Total	**122**	(6)	**29,584**	(3,726)
Analysed by ownership type				
Franchised	**4**	(3)	**852**	(525)
Managed	**118**	(3)	**28,732**	(3,201)
Total	**122**	(6)	**29,584**	(3,726)

Signings increased from 27 hotels (6,410 rooms) in 2010 to 36 hotels (7,424 rooms) in 2011, mainly within the Holiday Inn brand family (23 hotels or 5,037 rooms), including five Holiday Inn Express hotels as part of a deal with Duet India Hotels Group. In addition, there were three new signings for Hotel Indigo, in Jakarta and Riyadh, as well as the world's first Hotel Indigo resort in Phuket, Thailand.

Pipeline signings were offset by active management out of the pipeline of deals which were dormant or no longer viable, including a number of exits in the Middle East reflecting increased uncertainty in the region.

Greater China

Greater China strategic role

China will remain a key strategic market where we can maximise scale and establish local operating expertise to drive margin and expand our strong portfolio of brands.

2012 priorities

- Execute our strategic plans to become a BrandHearted organisation by delivering Great Hotels Guests Love and increasing revenue share;
- grow distribution and expand our portfolio of brands with a particular focus on our new Chinese upscale brand;
- extend IHG's leading presence in the market with strategic distribution of brands in established and emerging cities in China;
- build upon the success of the Holiday Inn relaunch to continue to grow the Holiday Inn brand family; and
- localise IHG channels, systems, processes, brands, responsible business practices and People Tools to increase efficiency, talent development, consumer preference and margin performance.

Greater China results

	12 months ended 31 December		
	2011 $m	2010 $m	% change
Revenue			
Franchised	**2**	2	–
Managed	**77**	60	28.3
Owned and leased	**126**	116	8.6
Total	**205**	178	15.2
Operating profit before exceptional items			
Franchised	**3**	3	–
Managed	**43**	30	43.3
Owned and leased	**37**	33	12.1
	83	66	25.8
Regional overheads	**(16)**	(12)	(33.3)
Total	**67**	54	24.1

Greater China comparable RevPAR movement on previous year

	12 months ended 31 December 2011
Managed	
All brands	10.3%
Owned and leased	
InterContinental	13.4%

Revenue and operating profit before exceptional items increased by $27m (15.2%) to $205m and by $13m (24.1%) to $67m respectively.

Managed revenue increased by $17m (28.3%) to $77m and operating profit increased by $13m (43.3%) to $43m. At constant currency, revenue increased by 26.7% and operating profit increased by 43.3%. Continued strong economic growth in the region helped to drive RevPAR growth of 10.3%. Excluding Shanghai, where RevPAR growth was tempered by strong comparatives due to the World Expo held in May to October 2010, comparable RevPAR grew by 17.4%. There was also continued significant system size growth for the managed estate in the region (14.2% rooms growth in 2011 and 12.6% in 2010).

On both a constant and actual currency basis, owned and leased revenue increased by $10m (8.6%) to $126m and operating profit increased by $4m (12.1%) to $37m. The InterContinental Hong Kong generated RevPAR growth of 13.4%.

Regional costs increased by $4m to $16m (33.3%), reflecting increased investment in operations and infrastructure in the region to support the growth of IHG's brands.

BUSINESS REVIEW continued

Greater China hotel and room count

	Hotels		Rooms	
At 31 December	2011	Change over 2010	2011	Change over 2010
Analysed by brand				
InterContinental	**23**	4	**9,911**	1,225
Crowne Plaza	**52**	9	**18,456**	3,010
Holiday Inn	**57**	5	**17,938**	1,547
Holiday Inn Express	**34**	5	**8,693**	1,133
Hotel Indigo	**1**	–	**184**	–
Other	**–**	(1)	**–**	(260)
Total	**167**	22	**55,182**	6,655
Analysed by ownership type				
Franchised	**3**	–	**963**	(6)
Managed	**163**	22	**53,724**	6,661
Owned and leased	**1**	–	**495**	–
Total	**167**	22	**55,182**	6,655

Greater China hotel and room count increased by 22 hotels (6,655 rooms) to 167 hotels (55,182 rooms). Growth was driven by openings of 26 hotels (8,084 rooms), higher than in 2010 (24 hotels or 7,253 rooms). The majority of openings were in the upscale brands in 2011, including the InterContinental One Thousand Island Lake Resort which is the first IHG resort in East China, whilst there were 12 openings for the Holiday Inn brand family, including five Holiday Inn Express hotels.

Greater China pipeline

	Hotels		Rooms	
At 31 December	2011	Change over 2010	2011	Change over 2010
Analysed by brand				
InterContinental	**22**	3	**9,879**	1,101
Crowne Plaza	**53**	(2)	**19,712**	(1,391)
Holiday Inn	**41**	–	**13,380**	561
Holiday Inn Express	**28**	(1)	**6,218**	(878)
Hotel Indigo	**5**	2	**579**	139
Total	**149**	2	**49,768**	(468)
Analysed by ownership type				
Franchised	**2**	–	**1,375**	1,049
Managed	**147**	2	**48,393**	(1,517)
Total	**149**	2	**49,768**	(468)

The pipeline in Greater China increased by two hotels to 149 hotels. There were 38 hotels signed during 2011 (12,112 rooms) compared to 40 hotels (11,486 rooms) in 2010. Demand was strong for both upscale and midscale brands. Signings were split between 21 hotels in the upscale brands (InterContinental, Crowne Plaza and Hotel Indigo) and 17 hotels within the midscale Holiday Inn brand family (including five for Holiday Inn Express).

Key signings include Holiday Inn in Macau with Sands China Ltd, which will be the world's largest Holiday Inn, with 1,224 rooms, and Hotel Indigo Haitang Bay, which will be the first Hotel Indigo to open in a resort location in Greater China.

Central

Central results

	12 months ended 31 December		
	2011 $m	2010 $m	% change
Revenue	**112**	104	7.7
Gross central costs	**(259)**	(243)	(6.6)
Net central costs	**(147)**	(139)	(5.8)

During 2011, net central costs increased by $8m from $139m to $147m (5.8%). At constant currency, net central costs increased by $4m (2.9%). The movement was primarily driven by increased investment to support growth in the business. Central revenue mainly comprised technology fee income.

System Fund

System Fund results

	12 months ended 31 December		
	2011 $m	2010 $m	% change
Assessment fees and contributions received from hotels	**1,025**	944	8.6
Proceeds from sale of Priority Club Rewards points	**128**	106	20.8
	1,153	1,050	9.8

In the year to 31 December 2011, System Fund (the Fund) income increased by 9.8% to $1.2bn primarily as a result of growth in hotel room revenues and marketing programmes. The increase in proceeds from the sale of Priority Club Rewards points mainly reflects the strong performance of co-brand credit card schemes.

In addition to management or franchise fees, hotels within the IHG system pay cash assessments and contributions which are collected by IHG for specific use within the Fund. The Fund also receives proceeds from the sale of Priority Club Rewards points. The Fund is managed for the benefit of hotels in the system with the objective of driving revenues for the hotels.

The Fund is used to pay for marketing, the Priority Club Rewards loyalty programme and the global reservation system. The operation of the Fund does not result in a profit or loss for the Group and consequently the revenues and expenses of the Fund are not included in the Group income statement.

Other financial information

Exceptional operating items

Exceptional operating items totalled a net gain of $35m. Exceptional gains included $37m from the disposal of hotels, including $29m profit on the sale of the Holiday Inn Burswood, a UK VAT refund of $9m, $20m net impairment reversals and a $28m pension curtailment gain in relation to the closure of the UK defined benefit pension scheme. Exceptional charges included a $22m litigation provision and $37m in respect of the settlement of a prior period commercial dispute in Europe.

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 remained flat at $62m as costs relating to the new syndicated bank facility offset the impact of lower levels of net debt.

Financing costs included $1m (2010 $2m) 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 2011 also included $18m (2010 $18m) in respect of the InterContinental Boston finance lease.

BUSINESS REVIEW continued

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 24% (2010 26%). By excluding the impact of prior year items, which are included wholly within continuing operations, the equivalent tax rate would be 36% (2010 35%). This rate is higher than the average UK statutory rate of 26.5% 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 $48m (2010 charge of $8m) 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 and tax arising on disposals.

Net tax paid in 2011 totalled $90m (2010 $68m) including $1m paid (2010 $4m) in respect of disposals. Tax paid represents an effective rate of 17% (2010 17%) on total profits and is lower than the effective income statement tax rate of 24% primarily due to the impact of deferred taxes (including the realisation of assets such as tax losses), the receipt of refunds in respect of prior years and provisions for tax for which no payment of tax has currently been made.

IHG pursues a tax strategy that is consistent with its business strategy and its overall business conduct principles. This strategy seeks to ensure full compliance with all tax filing, payment and reporting obligations on the basis of communicative and transparent relationships with tax authorities. Policies and procedures related to tax risk management are subject to regular review and update and are approved by the Board.

Tax liabilities or refunds may differ from those anticipated, in particular as a result of changes in tax law, changes in the interpretation of tax law, or clarification of uncertainties in the application of tax law. Procedures to minimise risk include the preparation of thorough tax risk assessments for all transactions carrying tax risk and, where appropriate, material tax uncertainties are discussed and resolved with tax authorities in advance.

IHG's contribution to the jurisdictions in which it operates includes a significant contribution in the form of taxes borne and collected, including taxes on its revenues and profits and in respect of the employment its business generates.

Earnings per ordinary share

Basic earnings per ordinary share in 2011 was 159.2¢, compared with 101.7¢ in 2010. Adjusted earnings per ordinary share was 130.4¢, against 98.6¢ in 2010.

Dividends

The Board has proposed a final dividend per ordinary share of 39.0¢ (24.7p). With the interim dividend per ordinary share of 16.0¢ (9.8p), the full-year dividend per ordinary share for 2011 will total 55.0¢ (34.5p).

Share price and market capitalisation

The IHG share price closed at £11.57 on 31 December 2011, down from £12.43 on 31 December 2010. The market capitalisation of the Group at the year end was £3.4bn.

Capital structure and liquidity management

Net debt* at 31 December	2011 $m	2010 $m
Borrowings:		
US dollar	**715**	715
Euro	**–**	100
Other	**5**	6
Cash	**(182)**	(78)
Net debt	**538**	743
Average debt levels	**721**	923

* Including the impact of currency derivatives.

Facilities at 31 December	2011 $m	2010 $m
Committed	**1,075**	1,605
Uncommitted	**79**	53
Total	**1,154**	1,658

Interest risk profile of gross debt for major currencies at 31 December	2011 %	2010 %
At fixed rates	**100**	100

During the year, $479m of cash was generated from operating activities, with the other key elements of the cash flow being:

- proceeds from the disposal of hotels of $142m, including $71m from the sale of the Holiday Inn Burswood on 1 July 2011 and $55m from the sale of the Hotel Indigo San Diego on 17 June 2011; and
- capital expenditure of $194m including a $12m equity stake in Summit Hotel Properties, Inc., a $31m investment in joint ventures and a $37m deposit paid to a hotel owner in connection with the renegotiation of a management contract.

The Group refinanced its bank debt in November 2011, putting in place a five-year $1.07bn syndicated bank facility which matures in November 2016. This facility was substantially undrawn at the year end.

In December 2009, the Group issued a seven-year £250m public bond, at a coupon of 6%. The £250m was immediately swapped into US dollar debt using currency swaps.

Additional funding is provided by a finance lease on the InterContinental Boston.

Net debt at 31 December 2011 was $538m, a decrease over the year of $205m. Net debt included $209m in respect of the finance lease obligations for the InterContinental Boston and $29m in respect of currency swaps related to the sterling bond.

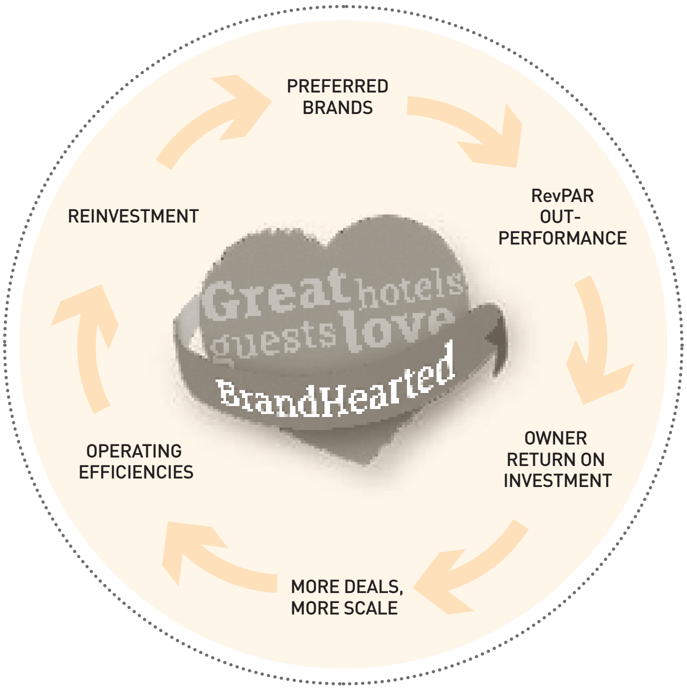
Our people

IHG directly employed an average of 7,956 people worldwide during 2011 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 345,000 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 120,000 people. During 2011, our trading environment began to recover and we continued to focus on balancing greater efficiencies in our operations, while continuing to engage with our people.

Supporting our Vision

In 2011 we continued to support our Vision to be one of the world's great companies by introducing BrandHearted.

We already have a unique culture built on our Winning Ways – the values which guide how IHG interacts with guests, colleagues and hotel owners. However, recognising that our people deliver our brands and bring our brands to life, we also need to ensure that all our people champion our brands all the time. A BrandHearted focus serves to address this; a change to the way we work, that puts our brands at the heart of our thinking and our decision-making, so that we can improve the performance of our brands.

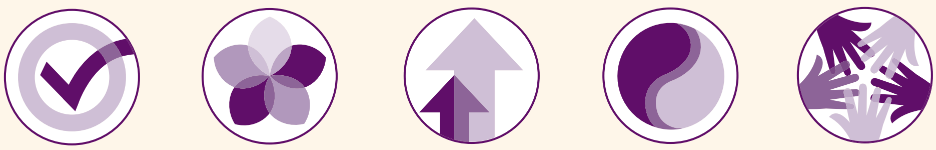


With this focus on our brands we will drive a consistent experience in our hotels. These experiences, in turn, will build guest preference, and encourage guests to seek out our brands when they travel. This helps to win market share and drive revenue – for IHG and our owners.

Leading this culture change is the Programme Office, joining up our efforts across the Group, and helping our people understand the role they play as brand ambassadors.

Winning Ways

These five behaviours define how we work together to create Great Hotels Guests Love



Do the right thing | Show we care | Aim higher | Celebrate difference | Work better together

BUSINESS REVIEW continued

Our people strategy

The four pillars of our people strategy are:

- developing a BrandHearted culture;
- making IHG a great place to work;
- delivering world-class people tools for our owners; and
- building a strong leadership team.

Developing a BrandHearted culture

Introducing BrandHearted started with our leaders in April 2011, when we brought 300 of our most senior people together to understand the changes needed (see page 29).

Key to any culture change is engagement, so we created a variety of communications tools for our leaders, so they could inspire their teams about our brands and who could, in turn, communicate that love and knowledge to our guests. In 2011 we delivered three cascade kits that included BrandHearted exercises and videos from each of our brand heads explaining more about the brand; brand-on-a-page documents that summarise what the guest is looking for from the brand and how we need to behave to meet their expectations; and eLearning modules with more in-depth information on IHG's approach to brands and branding.

We also put our brands at the centre of our thinking and our planning, with our new Brand Plan to Win process. These plans help us to be clear about the brand proposition (what it stands for, who it is designed for, how it makes our guests feel and the role it plays for IHG), the brand experience (every connection that a guest has with the brand), the brand priorities and IHG targets.

Since people are a product of their environment, we have also launched the Heart of House programme, which transforms the traditional 'back of house' into the true heart of our hotels – a warm, inviting place for employees to find out about what is happening at IHG, with their brand, in their hotel and in their teams. It provides both a communications tool and an improved working environment to support our General Managers in involving, inspiring and engaging their teams as brand ambassadors. In hotels with a Heart of House we have seen engagement increase by 13% and pride in the 'back of house' increase from 35% to 91%. This is critical because we know that when colleagues feel engaged and love coming to work, that attitude is reflected in their service, creating those great brand experiences that guests will seek out again. Adaptable for both big and small spaces, Heart of House is unique in the hotel industry – a powerful, visual demonstration of our belief in the role people play in our success.

Making IHG a great place to work

IHG has developed a strong culture of engagement that provides the environment which helps us attract and retain great people. This is enhanced by our 'Room to be yourself' commitment, which makes four key promises:

Room to have a great start

As one of the world's largest hotel companies, with one of the strongest new hotel opening pipelines, hiring the right people for our brands is critical. We know that over 190,000 people need to be hired in our franchise hotels alone from 2012 to 2014, so an important development in 2011 was the creation and launch of a job posting portal for our franchise estate, enabling them to post jobs to our www.ihg.jobs website. In 2011 we also developed a unique resourcing system for our China market, tailored to the local Chinese talent. In November 2011 alone we saw a rise of 1,500 jobs being posted to our site bringing the total to over 3,000 jobs advertised across our Greater China hotel estate.

As part of our 'People Tools', a suite of best practice guides and tools which help our hotels hire, train, involve and recognise the best people for their brands, we offer recruitment advertisements featuring existing employees. Specific behaviours have been identified in order to bring each brand to life and these are built into all of the tools, for example ensuring we recruit someone with the right attitude for the brand as well as the right technical skills for the role. Once recruited, we offer an orientation programme to ensure our new team members learn about our history, our culture, Winning Ways, Room to be yourself, our Vision and our brands. Each new joiner is assigned an orientation advisor who supports them through the first 90 days.

Room to be involved

A record 94% of colleagues worldwide took part in the 2011 employee survey. IHG's Engagement index improved by two percentage points from November 2010 (76%) to November 2011 (78%), together with a one per cent improvement in pride to 93%. The results once again out-performed the industry average in addition to out-performing our survey partner's 'high performing benchmark', and are an important indicator that we are focusing on the priority areas that matter most to our people. We also used the survey to track awareness and understanding of the IHG Vision of becoming one of the great companies of the world. Our October 2011 employee survey results show that 88% of our people are aware of our Vision among whom 95% say they believe it will help us create a great company. The survey indicates that 88% of employees agree that IHG delivers training to assist with their current roles, which is a one percentage point increase on 2010. We also used our sponsorship of the London 2012 Olympic and Paralympic Games to drive pride and engagement, with 88% of colleagues positive about the sponsorship and proud of our role in the Games, up from 86% in 2010.

Room to grow

We run a twice-yearly Careers Week for our talented, energetic and passionate people to promote the world of job opportunities in over 4,400 hotels in nearly 100 countries and territories; and a monthly Hot Jobs feature on our intranet, Merlin, profiling key vacancies around the world.

To provide support for our leaders, we continue to expand The Leaders Lounge, our virtual leadership development forum for IHG senior managers. This online meeting place brings together the Chief Executive, the Executive Committee, and our senior leaders to discuss and share ideas and solutions to the key issues and challenges for IHG, as well as learning from external business thinkers. In 2010 we opened a Leadership Academy within the Lounge, and in 2011 we expanded the curriculum of IHG specific eLearning modules on strategy, finance, communications, coaching and other key areas of leadership. The Leaders Lounge continues to be recognised, winning a number of awards in 2011 including the ASTD (American Society for Training and Development) award for Excellence in Practice and the Training Magazine Best Practice award. To date, more than 1,360 Lounge members have taken more than 8,000 modules to increase their leadership ability using 41,756 great leadership tips and insights each month, or an average of one leadership tip a day.

We also continue to provide an extensive range of training to our employees aimed at accelerating their development, including eLearning curricula from respected business schools such as Cornell University in the US. To manage our graduate pipeline, both our Asia, Middle East and Africa and Europe regions run graduate programmes. The I-grad and Future Leaders programmes rotate graduates through departments in our hotels and corporate offices to develop their operational and leadership capabilities. In 2011 we had over 25 graduates on rotation in our hotels around the world and due to our growth and focus on talent we hired double this number to 50 graduates who started with us towards the end of 2011. Career Insight Development Centres place our high potential hotel team members in a simulated world of running a hotel. Participants experience first-hand many of the challenges and obstacles faced everyday in hotels and graduate with a clear development plan aimed at getting them ready for the next step in their career.

During 2011, we again conducted our annual talent review of our corporate managers and hotel General Managers to identify and develop skills required for the future. The results of the review gave us a clear understanding of our high-potential talent, their strengths, their development opportunities and the new experiences or potential roles which will enable them to enhance their skills for the future and to meet IHG's key objectives. The annual succession planning process for senior leadership roles enables IHG to anticipate the future leadership needs to achieve the IHG strategy and to put the long-term plans in place to build both the right number and right quality of leaders to meet those needs.

In 2011, we introduced our new online performance management tool, myRoomtogrow, to more than 7,300 employees globally including all corporate team members and General Managers at our managed and owned hotels. Adoption of the system was at 78% in December 2011 for managers. myRoomtogrow includes all steps in our performance management journey – setting objectives at the start of the year, a check of progress at mid-year, our personal development plans, an annual self review, the manager's review and calibration to ensure consistency of ratings across the business.

Room for you

Our promise to give employees 'Room for you' was best illustrated in 2011 with the introduction of a new global recognition programme called Bravo which helps corporate employees to publicly recognise each other for a job well done. The intranet-based programme allows colleagues to nominate each other for a simple thank you or one of the various award levels which have an associated cash value depending on the achievement of the nominee. In just two months over 1,800 Bravo awards were made.

Delivering world-class People Tools for our owners

When we say 'brands are a promise delivered by people', we mean all the people who work for IHG and in IHG branded hotels. Guests do not choose a business model; they choose our brands. So we have made our award-winning 'People Tools', which help our owners to hire, train, involve and recognise employees, available to our franchised hotels.

We have been working with our brand teams who define the guest experience and personality for each brand. This has allowed us to design training that will help employees understand what each brand stands for and to deliver each unique brand experience. In 2011, we introduced our branded service behaviour training to Holiday Inn, Hotel Indigo, InterContinental and Staybridge Suites hotels. 94% of the attendees said they would recommend the workshop to colleagues and other hotels. We are in the process of rolling out service training for Crowne Plaza and Candlewood Suites.

Plans have already begun for the third annual Celebrate Service week in 2012. This week gives our hotels and corporate offices a formal opportunity to tell their teams how much they are appreciated. In 2011, more than 3,000 hotels and offices around the world participated, and shared 1,600 stories of exceptional, BrandHearted service by our teams. As a reward, we gave each of the 32 people with the most compelling stories a pair of tickets to the London 2012 Olympic and Paralympic Games.

All of these tools and events help our owners bring our brands to life through their people. This helps them reduce costs by keeping employees engaged and increasing employee retention, and helps them grow revenue through increased guest satisfaction and repeat visits.

Building a strong leadership team

To grow our business sustainably requires BrandHearted leaders; leaders who can transform the business and inspire their people, while putting our brands at the heart of everything they do. Key to achieving this is being clear with leaders on what is expected from them at the different levels within the organisation, and providing the tools and resources that leaders need to develop their capability to meet that expectation.

Some of the key activities which demonstrate how we support leaders to develop their BrandHearted leadership capability, are as follows:

- holding a conference for our top 300 leaders, helping them understand how to lead a BrandHearted business;
- helping leaders cascade BrandHearted through conferences and team meetings;
- creating a BrandHearted section in our Leaders Lounge;
- bringing BrandHearted to life through our leadership competencies;
- creating a new BrandHearted leadership programme and General Manager/Brand Champion Service Behaviour training; and
- using eLearning to help educate our leaders, with three BrandHearted modules (Brands and Branding, Our Brands, and Building the Brand Experience); Holiday Inn Service Behaviours Leadership; and two Leadership competency modules (Candid Conversations and Champion Change).

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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 continues to provide a great opportunity to engage and motivate our people. Throughout 2011, we have given colleagues exclusive and once-in-a-lifetime opportunities:

- from China to Australia and from the US to the UK, we are appointing 91 of our best people to run the Olympic Village. Star performers from throughout the IHG family will take on essential roles, not only attending to world-class competitors' needs, but also in jobs across the Olympic organisation. These include working at the Athletes' Village, and in Venue IT, Internal Audit and Accommodation Reservations;
- to date we have hosted 25 sports master classes run by Olympic and Paralympic athletes in eight countries (including China and Australia), allowing more than 1,500 colleagues to have a go at everything from sailing to fencing, swimming to cycling. 97% of the colleagues who attended the classes gave them an 'excellent' rating, and more classes are planned for 2012 in countries including the US and Japan;
- we have given 70 of our most inspirational colleagues the opportunity to run with the Olympic Torch when it makes its way around the UK. These colleagues were selected on the basis of their remarkable contributions to the environment or community or an extraordinary personal story;
- we launched a competition for our employees to design a commemorative room keycard and the winning design will be used at Holiday Inn hotels throughout the UK and Ireland during the Games. It will also be made into a key ring for every Olympic athlete staying in the Athletes' Village, which they can take home as a memento from the Games. More than 566 designs were submitted; and
- we have also employed 16 Olympic athletes across IHG so they can earn while they train.

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.

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 34 to 40 of this Business Review and in the online Corporate Responsibility Report at www.ihgplc.com/responsibility.

External recognition

In January 2012 IHG was recognised in Fortune's '100 Best Companies to Work For' in the US, to add to the prestigious awards IHG won in 2011 in recognition of its people management and HR practices. These awards are important for three reasons. First, they allow us to benchmark ourselves against – and learn from – the best. Second, they validate our work, elevating us out of the hospitality industry, and putting us shoulder to shoulder with some of the world's great companies. And third, they send a signal to current and prospective employees that we have a great culture, and are a great place to work. In 2011, we won 16 separate people awards, including:

- 'The Sunday Times 25 Best Big Companies to Work For,' with recognition for excelling in every area throughout our workplace and our commitment to our most important asset – our people. We broke into the top 10 in 2011 – up from 19th place in 2010;
- 'The Atlanta Business Chronicle Best Places to Work' on the 'Big Companies' list – ahead of Accenture, Marriott and Ernst & Young;
- Personnel Today awards for Excellence in Global Human Resources and HR Team of the year. The judges were particularly impressed with our global HR strategy, tools and processes that are helping us to become one of the great companies of the world. Our team was also recognised for demonstrating excellence in increasing our global reach across our franchised hotels, and for creating an engaged and connected workforce, united towards a common goal; and
- Aon Hewitt's 'Best Employer' awards in Hungary, Singapore, Malaysia, New Zealand and Australia. These awards recognised employees' positive response in a survey on our culture, employee engagement and how our work complements Great Hotels Guest Love.

Corporate responsibility

With over 4,400 hotels worldwide and almost 1,150 in the pipeline, we have a tremendous opportunity to help make tourism responsible, from the energy we use, to the economic opportunities we create and the support we can provide to communities in times of disaster.

To calculate the contribution made by IHG hotels, we asked Oxford Economics to analyse the impact of our operations in the US, UK and Brazilian economies. The report estimates that our hotels support close to two million jobs globally. Furthermore we know that each dollar spent at an IHG hotel multiplies through the economy six to seven times. This reinforces our conviction that behaving responsibly as a business is not just the right thing to do for our communities and the environment; it makes great business sense.

Bearing this in mind, our Corporate Responsibility (CR) strategy is based on innovation and collaboration in the areas that make most sense to our business and where we believe we can make the most difference, the environment and the community:

- Environment – driving environmental sustainability – through Green Engage and our three-year target to reduce energy consumption in our managed and owned estate by between 6% and 10% by the end of 2012.
- Community – creating local economic opportunity particularly through the IHG Academy, and by providing disaster relief through the IHG Shelter in a Storm Programme.

Corporate Responsibility Committee

Our CR Committee, formed in 2009, oversees that we have the right policies, management and measurement systems in place to deliver against our strategy. The Committee is chaired by Jennifer Laing, a Non-Executive Director. It met three times in 2011, focusing on the global expansion of the IHG Academy programme, the launch of the IHG Shelter in a Storm Programme and the ongoing roll-out of Green Engage. Our CR Committee was also kept up-to-date on how IHG managed its response to carbon regulation in the UK, which for the first time in 2011 required the business to report the carbon emissions of all UK properties.

We have established further committees to oversee globally-aligned decisions. These include our Green Engage Council and our Community Strategy Committee, both of which met to discuss improvements to, and expansions of, our programmes during 2011.

Innovation

We manage our challenges, particularly in relation to our environmental impacts, through innovation. We develop innovative concepts and technologies like our online Innovation Hotel website which helps us to create what future hotels could look like and how they might operate. The site allows online guests to tell us what they think of the latest sustainable hotel ideas. We launched a new version of the Innovation Hotel in 2011. The refreshed site now showcases real IHG hotel case studies and makes it even easier for guests to join the conversation.

We are committed to designing, building and operating more sustainable hotels through innovation. By choosing to develop programmes like Green Engage, we provide our hotel owners with guest-focused guidelines for more sustainable hotels.

Collaboration

Our stakeholders play a key role in helping us identify and tackle our priorities. They include guests and corporate clients, franchise holders and hotel owners, local communities, employees, shareholders, suppliers, academic institutions, non-government organisations, government and industry-specific institutions.

We continue to work with the best and brightest minds in the academic world. In 2011, IHG senior management met with students from Harvard University for an interactive critique of our CR report. We also co-sponsored Cornell University to undertake a study entitled 'Developing a Sustainability Measurement Framework for Hotels: Toward an Industry-wide Reporting Structure' which proposed a framework for the development of a standard carbon footprint methodology.

As a member of the International Tourism Partnership (ITP), and the World Travel & Tourism Council (WTTC), we work with our competitors to share knowledge and resources, develop policy and implement programmes that have a positive social, economic and environmental impact. Together we address issues that affect the industry as a whole. In 2011 we took a lead role in the ITP/WTTC working group seeking to agree a common carbon metric for the industry and were able to feed in the results of our work with Cornell. We also supported a working group on human rights issues.

To support the expansion of our community programmes we work with expert partners. On the IHG Academy programme, we worked with Business in the Community (BITC) to help us launch our first UK IHG Academy. The IHG Shelter in a Storm Programme works in partnership with one of the world's largest disaster relief agencies, CARE International, leading to the development of practical guidance on how our hotels can support local communities in times of crisis.

Environment

In 2011 we made further inroads in our industry-leading approach to designing, building and operating more sustainable hotels. We launched version 2.0 of our leading-edge environmental management tool, Green Engage, making it easier to use, adding more advanced features and developing training and support materials for our growing user base.

Green Engage

Green Engage helps us fulfil our important commitment to monitor, manage and reduce the carbon footprint of our hotels by providing them with relevant information about energy, waste and water consumption. In turn, this stops hotels losing money on energy costs. Energy is the second biggest cost to our business – the average IHG hotel spends over $500,000 on energy usage each year. Green Engage can help hotels become up to 25% more energy efficient, so it makes environmental and financial sense.

Currently, over 1,700 hotels are signed up to the system. Through it we have made a demonstrable improvement in year-on-year energy reduction, as our 2011 Carbon Disclosure Project (CDP) results prove. Our score increased by 22 points to 76 out of 100. This reflects the detail we provide about our governance and strategy to reduce our environmental impacts. Our aim is to have our entire estate using Green Engage over time. In 2012 we will continue to enhance Green Engage with new features including a water benchmark and carbon calculator.

Green Engage is driving revenue too. Our research shows that many US and UK frequent travellers prefer hotels which are meaningfully engaged in CR. We have made it easier for this

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growing band of customers to book a Green Engage hotel by introducing an online booking capability for guests who want to stay at 'green' hotels. In 2012 we will continue to expand awareness of our Green Engage hotels on IHG branded and external booking sites. We will also continue to work with our brand teams to ensure that CR is integral to their Brand Plans.

Community

Our scale gives us a real opportunity to improve the lives of local people. Our Community Strategy, which sets out how we seek to create local economic opportunity, is critical to achieving economic success and Great Hotels Guests Love. In 2011 we put more focus on the community, successfully expanding our two main programmes.

IHG Academy

Through the innovative IHG Academy we join forces with local education providers to provide real life skills and create job opportunities in hospitality. This public-private partnership improves employment prospects for local people, provides us with a pipeline of talent and ensures we offer high-quality guest experiences worldwide. It also gives our employees the opportunity to make a difference.

Originally developed in China, we expanded the programme globally in 2011. We now have 36 IHG Academy programmes in numerous countries, and over 5,500 participants took part in 2011 – up almost 20% from 2010. Chief Executive Richard Solomons opened our first UK IHG Academy at Rosedale College in Hayes, Middlesex. In 2012 we will formally launch our programme in Newham, East London, which will support the legacy and regeneration goals of the London 2012 Olympic and Paralympic Games.

Disaster relief

We have a long history of helping communities in times of disaster. The IHG Shelter in a Storm Programme, launched formally in 2011, builds on this tradition, using our scale to pool our resources and efforts. When disaster strikes, we provide guidance to help IHG hotels react swiftly and effectively, so they can provide help such as emergency shelter, food and clean water to communities around our affected hotels.

To develop and deliver this Programme we have established a global partnership with CARE International, who advise us on how to act and help find appropriate charity partners in the disaster area. We also set up an IHG Shelter Fund, which is supported through employee fundraising activities. We have already put the IHG Shelter Fund into action and more than $700,000 was raised to help those affected by the Japanese tsunami and the earthquakes in New Zealand. Money from the IHG Shelter Fund was also used during the flooding in Thailand to help employees of our hotels in Bangkok repair damage to their homes and belongings.

Stakeholder engagement and public policy

Our stakeholders are important to us. We engage with them through a number of channels, including forums, meetings, individual interviews, surveys and our award-winning online CR report. In 2011 we launched the 'IHG Planet CR' Facebook page and created a one-stop-shop 'resource centre' on our company intranet to help keep corporate employees and hotel operators up-to-date with our programmes. We also developed a series of animated videos to help raise awareness and understanding of our key programmes in a fun and engaging way. The videos are also available on YouTube.

We regularly track public policy issues which may affect our business and we have recently commissioned a shareholder review of CR to really understand what our investors think of our activities. Findings will feed into future strategy development.

To make sure our hotel operators have the latest information on our programmes we produced a 'CR in a Box' toolkit in collaboration with the IHG Owners Association. This quick and easy guide enables hotels to do more to support our CR efforts through 'how to' guides, videos and other downloadable material. In 2012 we will help our operators get more involved in our programmes by providing further tools, including information they can share with guests.

We will continue to provide quarterly updates through our online CR report. The report attracts roughly 5,000 visits a month and is an important source of stakeholder feedback, which in turn drives our strategy. And we will continue to add new case studies to our Innovation Hotel, giving hotels the chance to share their achievements.

Regulation and legislation

Over and above complying with legal requirements wherever we operate, our systems and programmes help keep us ahead of regulatory demands.

Green Engage is core to helping hotel owners manage current regulatory performance and prepare for anticipated regulations.

This year we used Green Engage to comply with the requirements of the UK's Carbon Reduction Commitment, a mandatory carbon emissions reporting and pricing scheme.

These and other complex regulatory matters are overseen by our Global Carbon Strategy Team. We review our carbon strategy regularly with our CR Committee and discuss it with the IHG Owners Association to make sure our franchise owners support our aims.

External recognition

Our activities continued to receive external recognition in 2011. Our first entry in the BITC CR Index achieved a 'Silver status' rating. The CR Index is the UK's leading voluntary benchmark for corporate responsibility and over 350 organisations have used the tool since 2002.

We were also shortlisted for an award for 'Best Corporate Social Responsibility (CSR) Programme' at the Business Travel Awards 2012.

Policies and Code of Ethics

We have detailed policies on the environment, human rights, the community and a Code of Ethics and Business Conduct. In 2011 we also added a Vendor Code of Conduct to our approach.

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

CR priorities, performance and targets

The following table outlines IHG's overall CR priorities, developments and achievements during the year and priorities for 2012.

CR priorities	2011 developments and achievements	2012 priorities
Drive environmental sustainability	• Launched Green Engage version 2.0; • met target to have over 1,700 hotels using Green Engage by the end of 2011; • reduced energy consumption of IHG offices and hotels; • led the Cornell University carbon study and fed this into the International Tourism Partnership (ITP) and World Travel & Tourism Council (WTTC) industry carbon working group; and • participated in President Obama's Better Building Challenge.	• Meet 6% to 10% energy reduction target by end of 2012; • continue to grow hotels enrolled in Green Engage to 50% of our estate; • enhance quality of use of Green Engage at hotel level; • develop Green Meetings offering; and • continue to drive the development and use of a global CO_2 standard for hotels.
Positive impact on the local community	• Expanded the IHG Academy programme to numerous countries including our first UK-based IHG Academy; • created a toolkit providing our hotels with guidance on how to become an IHG Academy; • established the IHG Shelter in a Storm Programme and IHG Shelter Fund and donated over $700,000 to help communities in New Zealand, Japan and Thailand; and • formalised our partnership with CARE International to help provide strategic advice and guidance to our hotels in times of crisis.	• 'IHG Academy in a Box' to be created for roll-out across all regions; • online process for donation requests set up and communicated; • fundraising events in each region; • pilot life skills offering in London 2012 Olympic and Paralympic Games through social enterprise; and • further refine our key CR policies.
CR and our brands	• CR elements embedded in Brand Plans; and • increased presence of Green Engage in IHG internal communications.	• IHG Owners Association agreement on making Green Engage a brand standard; and • implementation plans and budgets in place for agreed CR elements in Brand Plans.
Engage stakeholders to champion and protect IHG's trusted reputation and deliver against public affairs priorities	• Launched Innovation Hotel version 2.0; • created the 'IHG Planet CR' Facebook page; • created a CR Resource Centre for internal stakeholders so they can access up-to-date information about our programmes; • completed a stakeholder and communications strategy session focusing on our sphere of influence, our stakeholders and our goals for stakeholder engagement; • engaged in meetings with key stakeholders to understand their priorities and explore opportunities for partnership working; and • continued to manage critical industry and government affairs issues.	• Continue to engage with our stakeholders through our refined stakeholder engagement process and channels; • continue to update the Innovation Hotel with new case studies and feed learning into Green Engage; • launch video to communicate the results of IHG's economic impact study; • increase Facebook fans to 6,000-10,000 by the end of 2012; • ensure alignment between CR and public policy; and • refresh CR training so our internal stakeholders are kept informed and updated.

For more information please visit our Corporate Responsibility website at www.ihgplc.com/responsibility and the Innovation Hotel at www.ihgplc.com/innovation or join us on Facebook at www.facebook.com/IHGCorporateResponsibility.

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Risk management

As a business, IHG manages and takes risks every day. However, we recognise that by managing risks effectively, particularly the major risks that may affect our business plans and strategic objectives, we are able to protect or enhance our key assets appropriately. Amongst our key assets, we have:

- brands and market position;
- financial strength and performance;
- business capability and systems including people, IT systems and ways of working; and
- business reputation and relationships with our stakeholders.

We believe that an effective risk management system requires:

- **Culture** – a proactive risk management culture ensuring our people have the necessary knowledge and demonstrate the right behaviours for effective leadership and decision-making;
- **Roles and responsibilities** – clear roles and responsibilities across a holistic view of risk management; and
- **Process and framework** – a robust process and framework for managing risks that is consistently applied across the business.

Risk management system

Working together to embed a proactive risk management culture

Consistent with our Winning Ways, IHG aims to embed a proactive risk management culture. The development of IHG's risk management culture and capability is a collaborative effort led by the Company Secretary, supported by the Global Risk Management team and delivered by everyone in the business from the Board and Executive Committee to front line hotel and corporate employees. IHG's vision for risk management is to foster a culture that becomes instinctive, well-informed, curious, alert, responsive, consistent and accountable.

Risk management activity is aligned to delivering Great Hotels Guests Love and is embedded in our business decision-making processes. This includes but is not limited to, integrating risk management into the strategic planning process and discussions at Strategy Review meetings between individual Executive Committee members and the Chief Executive and formal risk reporting to the Executive Committee, Audit Committee and Board. This 'tone from the top' support and accountability for risk management is then cascaded into the business.

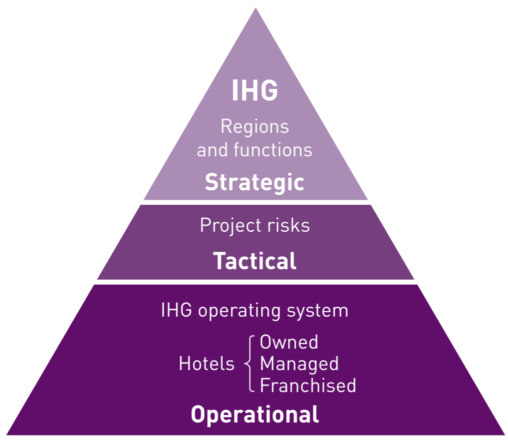
IHG's risk management capability is continually strengthened by learning from incidents and crises. With a global footprint of nearly 100 countries and territories, IHG navigated through numerous natural and man-made crises in 2011 responding to natural disasters in Japan, New Zealand and the US, and the political events in the Middle East. Events such as these continually strengthen our risk management culture.

Roles and responsibilities across a holistic view of risk management

The model illustrates our holistic view of risks affecting the Group:

- **Strategic and market risks** – risks that affect the Group's high-level strengths and weaknesses or reflect risks from the external environment. These risks are managed by senior leadership teams across the regions and corporate functions, with oversight provided by the Executive Committee;
- **Tactical risks** – risks arising from our key initiatives and projects supporting our growth and transformation agendas. These risks are managed by project managers and project sponsors within the relevant business functions, with oversight provided by the Programme Office; and
- **Operational risks** – risks affecting IHG's operating system and our hotels. These risks are managed by corporate functions and regional operators working collaboratively with hotel management teams and owners. Oversight is provided by the Global Operations Council.

With this approach, we believe we have clarity on ownership of risks and that clear oversight roles are in place. Additional risk governance roles and responsibilities are included in the Major Risk Review Process which seeks to identify the most significant strategic, tactical and operational risks to the Group.



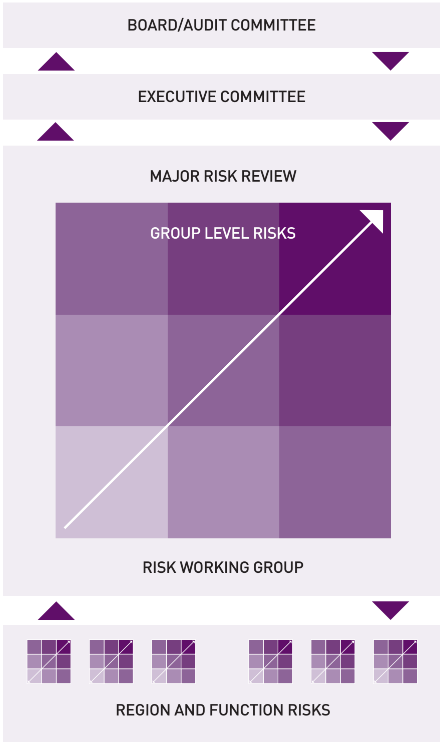
Major Risk Review Process

Risks are continuously identified, monitored and managed by a wide range of stakeholders across each region and the corporate functions, and are formally discussed twice a year with the Chief Executive.

In addition, the Risk Working Group, which is chaired by the Company Secretary and comprises the Global Heads of Strategy, Risk Management and Internal Audit, takes an active role in overseeing the most significant risks to the Group.

Risks identified in the regions and corporate functions are consolidated, refined and calibrated against a strategic view of risks by the Risk Working Group. The Major Risks are discussed with the Executive Committee to gain agreement on the risk descriptions, ownership and actions, before final presentation to the Audit Committee and Board. The Risk Working Group monitors changes to the Major Risks and the progress of actions on a quarterly basis, to ensure these risks are appropriately managed and emerging risks are identified.

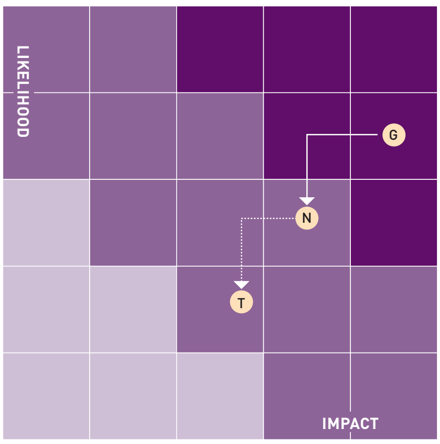
The Board is ultimately responsible for the Group's strategy, risk management and systems of internal control and for reviewing their effectiveness. In addition, the Audit Committee annually reviews the risk management system and the overall effectiveness of the Group's risk management.



Risk Management Framework

The Risk Management Framework which is consistently applied to risks affecting IHG is depicted in the 'Manage Risk' cog of the Hotel Safety Framework shown on page 37. This is a pragmatic risk framework which starts with a risk profile and moves through the necessary considerations for effective management/mitigation of risks.

Risk profile – identification and prioritisation of risks against consistently applied assessment definitions. This includes an assessment of risk before actions or controls are taken and after existing management actions are applied. Where these management actions are not sufficient, a further target risk level is set. The risk profile is captured in 'heatmaps' as shown in the diagram below:



G **GROSS RISK** (Risk level with ineffective or no controls in place)

N **NET RISK** (Current risk level with existing controls in place)

T **TARGET RISK** (Desired risk level to optimise investment, as required)

Policies and standards – formal articulation of the approach, controls and actions for IHG employees when dealing with specific risks. These set out accountability for risks, relevant roles and responsibilities and actions that are measurable or auditable;

Ways of working – practical aspects of risk management such as tools, templates, systems, forums and behaviours which help management bring the policies and standards to life;

Training and communication – face-to-face and online learning programmes to provide appropriate skills and knowledge and regular communication to raise awareness;

Operate and control – ongoing operational activities and control measures to comply with policies and standards and to manage risk;

Risk financing – consideration of the financial impact of risks and ensuring that arrangements are in place – usually insurance coverage or budgetary funds; and

Monitor and report – the collection and analysis of management information to evaluate the effectiveness of the risk profile, policies and standards, ways of working, training and communications and risk financing activities.

The Risk Management Framework reflects the cyclical nature of risk management and allows us to continuously assess the environment in which we are operating, particularly as the external risk environment is in a constant state of change.

BUSINESS REVIEW continued

Managing risks in a changing environment

We faced a turbulent external risk environment in 2011, seeing changes or disruptions in political, economic, social, technological, legal and environmental risks. These external factors are expected to remain unsettled for 2012 and the foreseeable future. The Group's wide geographic spread and fee-based model means that in general, events in individual countries are not expected to have a material impact on the Group's results, as has been seen in 2011.

The following section provides insight into risks, controls and mitigation activities for some of the risks we see as changing or dynamic:

Uncertainty in the Eurozone – the economic outlook for the Eurozone remains uncertain, however the Group is not significantly exposed to this region. Less than 10% of the Group's operating profit before central overheads is Euro denominated and the only significant asset in the region is the InterContinental Paris Le Grand which is partly hedged from a balance sheet perspective. The Group is not dependent on Euro liquidity and none of the banks in the syndicated facility are based in the Eurozone. The Group closely monitors working capital and cash to minimise any negative exposure to unexpected currency movements and is continually monitoring and reacting to trading conditions in the region;

Capital availability – global economic conditions remained weak with continued rebalancing in 2011, led by continued growth in China and other emerging markets, low level of optimism in the US and limited growth in the UK. Capital availability remains a challenge for current and potential hotel owners particularly in developed markets. This has put added pressure on existing and potential hotel owners, impacting on the current hotel estate and the delivery and growth of potential new IHG hotels in the pipeline. In response to the market conditions, specialist teams within our regional structures focused on monitoring the hotels in the pipeline using a global hotel opening tool and analysing external market conditions, supporting owners with financial difficulty and reviewing financial alternatives with lenders. In addition, development teams focused on opportunities that were less capital intensive;

Distribution channels and intermediaries – consumers now have access to far more information through the internet; this has resulted in increasing dependence on comparison websites and search engines. Sales through these channels typically have high commission rates and are taking a larger share of bookings across the travel and hospitality sector. IHG has responded well in this area by devoting more than half of its discretionary marketing budget to non-traditional tools such as online search, loyalty programmes and web and mobile applications. The Group has also continually invested in developing IHG's own internet presence and the Group can benefit from scale when negotiating terms with online business partners. In 2011, the Group launched the industry-leading 'Best Price Guarantee' for bookings made through IHG branded websites and has led the development of a new branded hotel search engine, roomkey.com, in partnership with several other hotel companies and which launched in early 2012;

Safety, security and crisis management – IHG places the safety and security of our people and guests first. The natural and man-made crises in 2011 acted as a stark reminder why this risk cannot be underestimated. Fortunately, IHG's safety, security and crisis management systems proved effective in managing a number of significant events without any direct loss of life and with minimal business interruption and damage. Looking forward, the geopolitical and civil unrest in the Middle East and Northern Africa remains and as the Group continues to grow its global footprint and expand in emerging markets, IHG may be increasingly exposed to safety and security incidents and major crises. IHG's proactive, risk-based approach to hotel safety and security is summarised in the 'Managing risk in hotels' and 'Hotel safety framework' in the next section;

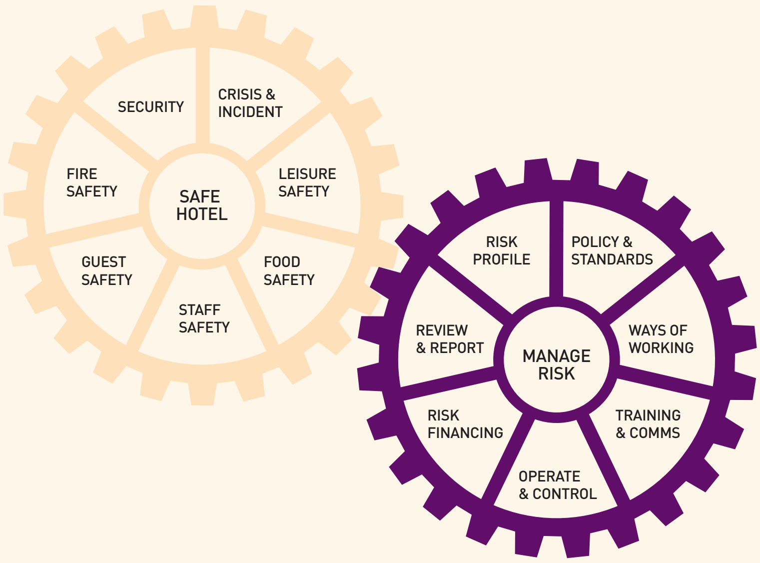
Data security and payment card protection – studies from credit card companies report that global incidents related to data security or credit card fraud in the hotel and lodging industry continue at an elevated level compared to other industries. IHG takes this risk very seriously and has been using risk-based methods to build capability and resilience into our systems for a number of years, as well as moving towards full compliance to Payment Card Industry – Data Security Standards (PCI-DSS). The Group has engaged a leading specialist third-party provider to support it achieving PCI-DSS compliance for core systems and is actively pursuing PCI-DSS compliance in all managed and owned hotels. IHG has also extended the service offering to franchised hotels. The Group manages data security incidents through a Data Security Task Force and the Information Security Council continues as a governing body (attended by senior executives from across the business) directly focused on containing this risk and considering innovative techniques to reduce the Group's exposure; and

Technology change, maintenance and upgrading of IT systems and platforms – IHG is reliant on a number of key IT systems and platforms which require continuous investment, maintenance and upgrades to meet changing user requirements and system capabilities and to benefit from new technologies. The Group continues to invest substantially in IT, with a number of key initiatives rolled out in 2011. For example, a new web-based email service leveraging cloud computing was launched globally in our corporate offices and managed and owned hotels. This gave end users a more powerful system that is more resilient and cost effective for the business. The Group also strengthened project risk management and project governance capability to ensure alignment of strategic projects, successful project delivery and to minimise business interruption.

Managing risk in hotels

IHG's commitment to safety, security and crisis management in hotels remains fundamental to its business. We appreciate the difference between a safe hotel and those that are poorly designed or operated, and we require that all IHG hotels become compliant with a new set of global Brand Safety Standards launched in 2011.

Our approach has been to enable and support hotel owners, General Managers and front line hotel staff to manage risk effectively. This is accomplished by giving them a systematic approach and framework to follow and by providing them with user-friendly tools to do the job. This includes a comprehensive suite of risk management, safety and security training, aligned to different roles and competency levels. Many of these offerings are accredited by the Chartered Institute of Environmental Health.



Hotel safety framework

The hotel safety framework enables a consistent approach to managing safety and security risk in IHG hotels. The framework is illustrated by showing two mechanical cogs meshed together showing different types of safety and security risks in the 'Safe Hotel' cog, against the actions described in the 'Manage Risk' cog. This framework is actively managed by IHG's risk managers around the world, working with hotels and their management teams in order to keep hotels safe and secure.

The hotel risk profile is developed through various means including self-assessment, guest satisfaction surveys, design and engineering plans, incidents, intelligence gathering, quality audits and risk management reviews. IHG hotel management discuss issues at monthly safety meetings and action plans are developed. Risks are prioritised, responsibility is 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.

BUSINESS REVIEW continued

2012 risk factors

Whilst the Major Risk Review focused on a number of changing or emerging risks which represent the priorities for today, the Group is subject to a variety of inherent risks which may have an adverse impact on the business 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 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 risk factors below should be considered in connection with any financial and forward-looking information in this Annual Report and the cautionary statements regarding forward-looking statements contained on page 129.

Strategic risks

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

The Group is exposed to political, economic and financial market developments such as recession, inflation, availability of 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 reduce the value of properties in affected economies. The owners or potential owners of hotels franchised or managed by the 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.

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, political or civil unrest, 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 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.

Tactical risks

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 position 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 similarly favourable terms or at all.

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, market saturation, 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. This could result in franchisees exiting the system which would adversely impact overall system size.

In addition, changes in legislation or regulatory changes may be implemented that have the effect of favouring franchisees relative to brand owners.

Tactical risks continued

The Group is exposed to inherent risks in relation to changing technology and systems

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 operational 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.

Operational risks

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 fails to sustain the appeal of the Group's brands to its customers may have an adverse impact on the value of that brand and subsequent revenues from that brand or business.

In particular, where the Group is unable to enforce adherence to its safety or 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 Group's brands.

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, or other factors affecting consumers' willingness to purchase goods and services.

Given the importance of brand recognition to the Group's business, the Group has invested considerable resources in protecting its intellectual property, including registration of trademarks and domain names. However, the controls and laws globally 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 requires the right people, skills and capability to manage growth and change

In order to remain competitive, the Group must employ the right people. This includes hiring and retaining highly skilled employees with particular expertise or leadership capability. The implementation of the Group's strategic business plans could be undermined by failure to build resilient corporate culture, recruit or retain key personnel, 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. Some emerging markets may not have the required local expertise to operate a hotel and may not be able to attract the right talent. Failure to attract and retain 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 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 Group's brands is partly derived from the ability to drive reservations through its proprietary HolidexPlus reservations system, a central repository of the Group's hotel room inventories linked electronically to multiple sales channels including IHG's own websites, call centres and hotels, third-party intermediaries and travel agents.

Lack of resilience and 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 technology strategy and select the right technology partners could erode the Group's long-term competitiveness.

BUSINESS REVIEW continued

Operational risks continued

The Group is exposed to the risks related to information security	The Group is increasingly dependent upon the availability, integrity and confidentiality of information including, but not limited to, guest and employee credit card, financial and personal data, business performance and financial reporting. 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 a variety of risks associated with its financial stability and ability to borrow and satisfy debt covenants	While the strategy of the Group is to extend the hotel network through activities that do not involve significant amounts of its own capital, the Group does require capital to fund some development opportunities and to maintain and improve owned hotels. The Group is reliant upon having financial strength and access to borrowing facilities to meet these expected capital requirements. The majority of the Group's borrowing facilities are only available if the financial covenants in the facilities are complied with. Non-compliance with covenants could result in the lenders demanding repayment of the funds advanced. If the Group's financial performance does not meet market expectations, it may not be able to refinance existing facilities on terms considered favourable.
The Group is required to comply with existing and changing regulations across numerous countries, territories and jurisdictions	Governmental regulations affect countless aspects of our business ranging from corporate governance, health and safety, environmental, bribery and corruption, employment law and diversity, disability access, relationships, data privacy and information protection, financial, accounting and tax. Regulatory changes may require significant changes in the way the business operates and may inhibit the strategy including the markets we operate in, brand protection, and use or transmittal of customer data. If the Group fails to comply with existing or changing regulations, the Group may be subject to fines, prosecution, loss of licence to operate or reputation damage.
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 it manages. 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 and its brands.
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 stakeholder groups such as 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, ethical behaviour, or fails to comply with relevant regulatory requirements.
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. 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 funding implications of the last actuarial review are disclosed in the notes to the Group financial statements on pages 106 to 109.
The Group may face difficulties insuring its business	Historically, the Group has maintained insurance at levels determined 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 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 2011, and the structure of senior executives' pay for 2012.

Hotel Indigo Shanghai on the Bund, China

THE BOARD OF DIRECTORS

David Webster

Non-Executive Chairman#
Chairman of the Nomination Committee

Appointed Deputy Chairman and Senior Independent Director of IHG 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 Non-Executive Director of Amadeus IT Holding SA, a transaction processing and technology solutions company for the travel and tourism industry, 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 67.

Richard Solomons

Chief Executive†∞

Appointed Chief Executive in July 2011. Previously Chief Financial Officer and Head of Commercial Development. Joined the Group in 1992 and held a variety of senior financial and operational roles, including Chief Operating Officer of The Americas Hotels division. Became Finance Director of the Hotels business in October 2002 in anticipation of the separation of Six Continents PLC in April 2003. A chartered accountant and a member of the Executive Committee of the World Travel & Tourism Council. Age 50.

Thomas Singer

Chief Financial Officer†

Appointed Chief Financial Officer in September 2011. Prior to joining the Group, he was Group Finance Director and a main board member of Bupa, a global healthcare provider. Previously Group Finance Director and Chief Operating Officer at William Hill PLC and Finance Director at Moss Bros Group PLC. Responsible for corporate and regional finance, Group financial control, strategy, investor relations, tax, treasury, commercial development and procurement. Age 48.

Kirk Kinsell

President, The Americas†

Appointed a Director in August 2010. Has over 29 years' experience in the hospitality industry, including senior franchise positions with Holiday Inn Corporation and ITT Sheraton. Joined the Group in 2002 as Senior Vice President, Chief Development Officer for The Americas region. Became an Executive Committee member in September 2007 and was previously President, Europe, Middle East and Africa until June 2011. Responsible for the business development and performance of all the hotel brands and properties in The Americas region. Age 57.

Tracy Robbins

Executive Vice President, Human Resources and Head of Operations Support†

Appointed a Director in August 2011. Has over 26 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. Has global responsibility for talent management, leadership development, employee reward strategy and implementation, organisational capability and operations support. Age 48.

David Kappler

Senior Independent Non-Executive Director*#•
Chairman of the Audit Committee

Appointed a Director and Senior Independent Director in June 2004. A Non-Executive Director of Shire plc. A qualified accountant and formerly Chief Financial Officer of Cadbury Schweppes plc and Non-Executive Chairman of Premier Foods plc. Also served as a Non-Executive Director of Camelot Group plc and HMV Group plc. A member of the Trilantic Europe Advisory Council. Age 64.

Graham Allan

Independent Non-Executive Director*#∞

Appointed a Director in January 2010. Became Chief Executive Officer of Yum! Restaurants International (YRI), a subsidiary of Yum! Brands, Inc., in 2010 after serving as President of YRI since 2003. Previously Executive Vice President and Chief Operating Officer of YRI and Managing Director of YRI in Europe. Has over 20 years' experience in brand management, marketing, franchising and retail development. Age 56.

Jennifer Laing

Independent 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 64.

Jonathan Linen

Independent 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 68.

Luke Mayhew

Independent Non-Executive Director#•∞
Chairman of the Remuneration Committee

Appointed a Director in July 2011. A Non-Executive Director of Brambles Limited, a global provider of supply chain and information management solutions. Previously served for 12 years on the Board of John Lewis Partnership, including as Managing Director of the Department Store Division. Was a Non-Executive Director of WH Smith PLC and Chairman of Pets at Home Group Limited. Age 58.

Dale Morrison

Independent Non-Executive Director*#

Appointed a Director in June 2011. A founding partner of TriPointe Capital Partners, a private equity firm. Was previously President and Chief Executive Officer of McCain Foods Limited and President and Chief Executive Officer of Campbell Soup Company. A Non-Executive Director of International Flavors & Fragrances Inc., a producer of flavours and fragrances. Age 63.

Ying Yeh

Independent Non-Executive Director#•∞

Appointed a Director in December 2007. Was formerly Vice President and Chairman, Greater China Region, Nalco Company and 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 and ABB Ltd. Was, for 15 years, a diplomat with the US Foreign Service in Hong Kong and Beijing until 1997. Age 63.

OTHER MEMBERS OF THE EXECUTIVE COMMITTEE

Keith Barr

Chief Executive, Greater China†§

Has over 19 years' experience in the hospitality industry. Joined the Group in 2000. Following senior appointments including Vice President of Sales and Revenue Management, Vice President of Operations and Chief Operating Officer, Australia, New Zealand and South Pacific, he was appointed Managing Director, Greater China in June 2009 and became Chief Executive, Greater China in April 2011. Responsible for the business development and performance of all the hotel brands and properties in the Greater China region. Age 41.

Angela Brav

Chief Executive, Europe†§

Has over 23 years' experience in the hospitality industry, including hotel operations, franchise relations and technology solutions. Joined the Group in 1988 and held various senior roles in the Group's US and European businesses prior to becoming Chief Operating Officer, North America. Was appointed Chief Executive, Europe in August 2011, responsible for the business development and performance of all the hotel brands and properties in Europe. Age 49.

Tom Conophy

Executive Vice President and Chief Information Officer†§

Has over 31 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 51.

Jan Smits

Chief Executive, Asia, Middle East and Africa†§

Has 30 years' experience in the hospitality industry. Joined the Group in 2002 and held various senior positions in the Asia and Australasia region. Became Managing Director, Asia Australasia in June 2009. Following the amalgamation of our Middle East and Africa region with our Asia Australasia region, became Chief Executive, Asia, Middle East and Africa in August 2011. Responsible for the business development and performance of all the hotel brands and properties in Asia, Middle East and Africa. Age 51.

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 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, legal and corporate responsibility and public affairs. Age 41.

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, and its Vision to become one of the world's great companies.

* A member of the Audit Committee
\# A member of the Nomination Committee
• A member of the Remuneration Committee
∞ A member of the Corporate Responsibility Committee
† A member of the Executive Committee
§ Not a main Board Director

DIRECTORS' REPORT

The Directors present their report for the financial year ended 31 December 2011.

Certain information required for disclosure in this report is provided in other appropriate sections of the Annual Report and Financial Statements 2011. These include the Business review, the Corporate Governance, Audit Committee, Nomination Committee 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 more than 658,000 guest rooms in nearly 100 countries and territories around the world.

Business review

This Directors' Report should be read in conjunction with the Chairman's statement and the Chief Executive's review on pages 3 to 5, and the Business review on pages 8 to 40. Taken together, these provide a fair review of the Group's strategy and business, significant developments during 2011 and a description of the principal risks and uncertainties it faces. IHG has set out how it manages some of the risks it sees as changing or dynamic on page 36 and the main risks that could materially affect the Group's business on pages 38 to 40. 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 $559m: the Group's income statement is set out on page 72. An interim dividend of 9.8p per share (16.0 cents per ADR) was paid on 7 October 2011. The Directors are recommending a final dividend of 24.7p per share (39.0 cents per ADR) to be paid on 1 June 2012 to shareholders on the Register of Members at the close of business on 23 March 2012. Therefore, the full-year dividend will be 34.5p per share (55.0 cents per ADR) (2010 30p per share (48.0 cents per ADR)). Total dividends relating to the year are expected to amount to $159m.

Share capital

The Company's issued share capital at 31 December 2011 consisted of 290,548,089 ordinary shares of 13 $^{29}/_{47}$p each. There are no special control rights or restrictions on transfer attaching to these ordinary shares. During the year, 1,075,438 new shares were issued under employee share plans.

IHG operates an Employee Share Ownership 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 4,111,489 shares and at 31 December 2011 it held 1,464,231 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 2011 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

No shares were purchased or cancelled under the authority granted by shareholders at the Annual General Meeting (AGM) held on 27 May 2011. The share buyback authority remains in force until the AGM in 2012, and a resolution to renew the authority will be put to shareholders at that AGM.

Substantial shareholdings

As at 31 December 2011 and 13 February 2012, the Company had been notified, in accordance with the Disclosure and Transparency Rules of the UK Financial Services Authority, of the following significant holdings of voting rights in its ordinary shares:

	At 31 December 2011	At 13 February 2012	Nature of interest
Southeastern Asset Management, Inc.	14.01%	14.01%	Indirect
Cedar Rock Capital Limited	5.07%	5.07%	Direct
BlackRock, Inc.	5.02%	5.02%	Indirect
Capital Research and Management Company	5.02%	5.02%	Indirect
Legal & General Group plc	3.96%	3.96%	Direct

Directors

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. The Company's Articles of Association may only be amended by special resolution of the shareholders and are available on the Company's website www.ihgplc.com/investors under corporate governance.

Biographical details of Directors who served on the Board as at 13 February 2012 are shown on pages 42 and 43. The following were Directors during 2011 and held office throughout the year, unless otherwise indicated:

Executive Directors	Non-Executive Directors
James Abrahamson[1]	Graham Allan
Andrew Cosslett[2]	David Kappler
Kirk Kinsell	Ralph Kugler[5]
Tracy Robbins[3]	Jennifer Laing
Thomas Singer[4]	Jonathan Linen
Richard Solomons	Luke Mayhew[6]
	Dale Morrison[7]
	David Webster
	Ying Yeh

1 Resigned on 13 June 2011.
2 Retired on 30 June 2011.
3 Appointed on 9 August 2011.
4 Appointed on 26 September 2011.
5 Retired on 30 June 2011.
6 Appointed on 1 July 2011.
7 Appointed on 1 June 2011.

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

	31 December 2011 InterContinental Hotels Group PLC ordinary shares[1]
Executive Directors	
Kirk Kinsell[2]	109,547
Tracy Robbins	43,108
Thomas Singer	–
Richard Solomons	252,166
Non-Executive Directors	
Graham Allan[3]	12,000
David Kappler	1,400
Jennifer Laing	3,373
Jonathan Linen[4]	7,343
Luke Mayhew	2,000
Dale Morrison	–
David Webster	35,828
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 66 to 68.

2 108,910 ordinary shares and 637 American Depositary Receipts.

3 2,000 ordinary shares and 10,000 American Depositary Receipts.

4 Held in the form of American Depositary Receipts.

During the year, IHG has maintained cover for the Company's and its subsidiary companies' directors and officers 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 7,956 people worldwide during 2011, whose costs are borne by the Group. When the whole IHG estate is taken into account (including employees working in the franchised and managed hotels) approximately 345,000 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 employee development, can be found on pages 27 to 30 of the Business review.

Charitable and political donations

During the year, the Group donated $1,540,000 (2010 $649,760) in support of community initiatives and charitable causes. In addition, IHG employees and guests made contributions during 2011 to a variety of causes through IHG facilitated channels. Taking all these contributions into account, total donations in 2011 are estimated at $2,040,000 (2010 $1,650,000).

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 26 of the Business review and in notes 21 to 23 to the Group financial statements on pages 99 to 105.

The Group is a party to the following arrangements which are terminable upon a change of control of the Company and are considered significant in terms of their potential impact on the business of the Group as a whole:

- the Group's five-year $1.07bn syndicated loan facility agreement dated 7 November 2011, under which a change of control of the Company would entitle each lender to cancel its commitment and declare all amounts due to it payable; and
- the terms of the £250m seven-year bond issued by the Company on 9 December 2009, under which a change of control would oblige the Company to redeem or purchase the outstanding notes together with interest accrued.

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 AGM.

Annual General Meeting

The Notice convening the AGM to be held at 11.00am on Friday, 25 May 2012 is contained in a circular sent to shareholders at the same time as this Annual Report.

Going concern

An overview of the business activities of IHG, including a review of the key business risks that the Group faces is given in the Business review on pages 8 to 40. Information on the Group's treasury management policies can be found in note 21 to the Group financial statements on pages 99 to 103. The Group refinanced its bank facility in November 2011 and put in place a new five-year $1.07bn facility. The £250m seven-year bond issued in December 2009 remains outstanding. At the end of 2011, the Group was trading significantly within its banking covenants and debt facilities.

The Group's fee-based model and wide geographic spread means that it is well placed to manage through uncertain times and our forecasts and sensitivity projections, based on a range of reasonably possible changes in trading performance and taking into account the risks and uncertainties outlined in the Business review, show that the Group should be able to operate within the level of its current facilities.

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

InterContinental Hotels Group PLC
Registered in England, Number: 5134420
13 February 2012

CORPORATE GOVERNANCE

Chairman's overview

IHG takes its corporate governance responsibilities seriously and aims to implement and uphold robust and responsible business processes and policies throughout the Group. We believe good governance supports high performance and the development of long-term strategy and performance. We are committed to sustained high performance supported by good governance.

In this section of the Annual Report, we report on our compliance against the principles and provisions of the UK Corporate Governance Code (the Code). As IHG'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.

As Chairman, I am responsible for providing leadership to the Board necessary to promote the success of the Company and create value for shareholders in the long-term, whilst ensuring that sound effective corporate governance practices are embedded in the organisation and its decision-making processes. I have therefore continued to facilitate a good relationship between the Executive and Non-Executive Directors and promote a culture of openness and debate to ensure that we have in place effective decision-making processes.

In 2011, there were a number of changes to the composition of the Board. Following Andrew Cosslett's retirement, Richard Solomons became Chief Executive in July 2011. Kirk Kinsell became President, The Americas in June 2011 following James Abrahamson's resignation and in August 2011, we announced the appointment of Tracy Robbins as an Executive Director, demonstrating effective succession planning and strengthening the relationship between Executive and Non-Executive Directors. On 26 September 2011, Thomas Singer joined IHG as Chief Financial Officer from global healthcare group Bupa. We also made two Non-Executive Director appointments; Dale Morrison joined the Board in June 2011 and Luke Mayhew joined as a Non-Executive Director and Chairman of the Remuneration Committee in July 2011. Ralph Kugler retired from the Board as a Non-Executive Director and Chairman of the Remuneration Committee in June 2011 after over eight years at IHG. The progressive refreshing of the Board ensures that we have appropriate continuation and a multi-skilled and diverse Board.

Code compliance

The Board considers that the Company has complied with all the principles and provisions of the Code, available at www.frc.org.uk, throughout the year ended 31 December 2011.

David Webster
Chairman
13 February 2012

Internal control and risk management

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

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 processes relying upon 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 Risk 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 and risk management during the year ended 31 December 2011. This covered all material controls, including financial, operational and compliance controls, the principal risks affecting the Group 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 Code and the Turnbull Guidance. The system of internal control and risk management is designed to manage, rather than eliminate, risk of failing 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 have been identified and actions initiated as a result of the above process, no significant shortcomings have been identified from the annual assessment.

The key financial controls across all our business units have also been identified and evaluated, in particular, to comply with our US obligations, arising from the Sarbanes-Oxley Act 2002. 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.

The Group continues to insure against risks but 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. Our approach to risk management, key risk mitigating activities and the principal risk factors that could affect the Group are set out in the Business review on pages 34 to 40.

Board and Committee structure

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

The Board

The Board's current composition of the Non-Executive Chairman, four Executive and seven Non-Executive Directors meets the requirement of the 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 Chairman was independent on his original appointment to the Board. Collectively, the Board has an appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively. The roles of the Chairman and of the Chief Executive are separate and have been approved by the Board. Directors of the Company who served during 2011 are set out on page 44. Current Directors' biographical details, including their main external commitments, are set out on pages 42 and 43 of this Annual Report.

The Board is collectively 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, risk management, governance and compliance and considers regulatory changes and developments in advance, to ensure that IHG is well-positioned to maintain the Group's trusted reputation in these areas. The Board also ensures that the necessary financial and human resources are in place for the Group to meet its objectives.

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. It is the Nomination Committee's responsibility to evaluate formally the required skills, knowledge, experience, independence and diversity of the Board, in a structured way.

The schedule of matters which are reserved for the Board's attention and decision may be found on the Company's website at www.ihgplc.com/investors under corporate governance/ main board and executive committee. Certain specific responsibilities are delegated to the Board Committees, namely the Audit, Nomination, Remuneration and Corporate Responsibility Committees, which are described below. These Committees report regularly to the Board.

Eight regular Board meetings are scheduled each year and additional meetings are held as necessary. This includes a two-day strategy meeting held in one of the Group's key markets, in which the Board considers the Group's strategy and related issues. This provides an opportunity for the business to have a wide-ranging dialogue with the Board and for the Board to meet many of our senior management and understand such key geographical markets. The Chairman, in conjunction with the Company Secretary, plans the agenda for each meeting. Directors are briefed on the Group's financial performance and its operations, including commercial and operational matters, reports on relations with investors and updates on key strategic plans, by means of comprehensive papers in advance of, and by presentations at, Board meetings. The Board also receives more in-depth presentations on a wide range of business issues in a more informal context the evening before formal Board meetings. Should any Director be unable to attend a meeting, he or she would be provided with all the papers and information relevant to that meeting and be able to discuss matters arising with the Chairman and the Chief Executive.

During 2011, the Board held a two-day strategy meeting in Shanghai, China. The discussion topics included major trends in the industry, key responses and actions planned by IHG, new business development opportunities, execution of IHG's strategy and the progress being made and an overview of the medium- to long-term financial impacts of our strategic choices. Evening presentation topics during 2011 included an update on the Crowne Plaza brand, innovation and brands and the Holiday Inn and Holiday Inn Express London 2012 Olympic and Paralympic Games sponsorship.

Conflicts of interest

The Company's Articles of Association allow the Directors to authorise conflicts and potential conflicts of interest, where appropriate. The Board reviews potential conflicts of interest as a standing agenda item at each meeting. At the Board meeting in December 2011, each of the Directors was requested to disclose any conflicts or potential conflicts by returning a questionnaire to the Company Secretary. The Board considered all the responses to the questionnaires and approved potential conflicts of interest as it deemed appropriate.

Chairman

David Webster was Non-Executive Chairman throughout 2011. He has responsibility for ensuring the efficient and effective 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.

Mr Webster is also Non-Executive Chairman of Makinson Cowell Limited, Non-Executive Director of Amadeus IT Holding SA, a member of the Appeals Committee of the Panel on Takeovers and Mergers and a Director of Temple Bar Investment Trust PLC.

Chief Executive

Richard Solomons became Chief Executive on 1 July 2011, having succeeded Andrew Cosslett who retired from the Board on 30 June 2011. Mr Solomons has responsibility to recommend to the Board, and to implement, the Group's strategic objectives and to manage business operations. He is responsible for the executive management of the Group and ensures that the Board understands Executive Directors' views on business issues. He is also a member of the Executive Committee of the World Travel & Tourism Council, a non-remunerated position.

Senior Independent Director

David Kappler was Senior Independent Director throughout 2011. His responsibilities include being available to liaise with shareholders who have concerns that they feel have not been addressed through the normal channels, being a sounding board for the Chairman and leading the performance evaluation of the Chairman.

CORPORATE GOVERNANCE continued

Non-Executive Directors

A team of seven experienced independent Non-Executive Directors, in addition to the Non-Executive Chairman, represents a strong source of advice and judgement. Each Non-Executive Director has significant external commercial experience and together they have a broad range of skills, knowledge and experience and represent a wide geographical spread. The Non-Executive Directors, including the Chairman, meet during the year to consider the Group's business and management.

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 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 appointment and removal of the Company Secretary is a matter reserved for the Board.

Committees

Each Committee of the Board has written terms of reference which are approved by the Board and subject to review every year. These are available on the Company's website www.ihgplc.com/investors under corporate governance/committees or from the Company Secretary's office on request. During the year, the terms of reference of all of the Committees of the Board were reviewed against the latest best practice guidance and the Code. As a result, some minor amendments in respect of the Code were made to update the Remuneration Committee's terms of reference.

A summary of each Director's attendance at the Board and its principal Committee meetings during 2011 is provided in the table below:

		Board	Audit Committee	Nomination Committee	Remuneration Committee	Corporate Responsibility Committee
Current Directors						
David Webster	Non-Executive Chairman	8/**8**	n/a	4/**4**	n/a	n/a
Richard Solomons[1]	Chief Executive	8/**8**	n/a	n/a	n/a	2/**2**
Kirk Kinsell	President, The Americas	8/**8**	n/a	n/a	n/a	n/a
Tracy Robbins[2]	Executive Vice President, Human Resources and Head of Operations Support	1/**3**	n/a	n/a	n/a	n/a
Thomas Singer[3]	Chief Financial Officer	3/**3**	n/a	n/a	n/a	n/a
Graham Allan	Non-Executive Director	8/**8**	5/**5**	4/**4**	n/a	3/**3**
David Kappler[4]	Non-Executive Director and Senior Independent Director	8/**8**	5/**5**	3/**4**	5/**5**	n/a
Jennifer Laing[5]	Non-Executive Director	8/**8**	5/**5**	3/**4**	n/a	3/**3**
Jonathan Linen[6]	Non-Executive Director	7/**8**	n/a	3/**4**	4/**5**	n/a
Luke Mayhew[7]	Non-Executive Director	4/**4**	n/a	1/**1**	2/**2**	1/**1**
Dale Morrison[8]	Non-Executive Director	5/**5**	3/**3**	1/**2**	n/a	n/a
Ying Yeh[9]	Non-Executive Director	8/**8**	n/a	4/**4**	5/**5**	2/**2**
Former Directors						
Andrew Cosslett[10]	Chief Executive	3/**3**	n/a	n/a	n/a	n/a
James Abrahamson[11]	President, The Americas	2/**3**	n/a	n/a	n/a	n/a
Ralph Kugler[12]	Non-Executive Director	4/**4**	2/**2**	2/**3**	3/**3**	2/**2**
Total meetings held		**8**	**5**	**4**	**5**	**3**

1 Richard Solomons was appointed to the Corporate Responsibility Committee effective 1 June 2011: attended all respective Committee meetings from this date onwards.

2 Tracy Robbins was appointed as a Director on 9 August 2011: attended all Board meetings from this date onwards except two due to illness.

3 Thomas Singer was appointed as a Director on 26 September 2011: attended all Board meetings from this date onwards.

4 David Kappler was unable to attend one Nomination Committee meeting due to other pre-existing meetings.

5 Jennifer Laing was unable to attend one Nomination Committee meeting due to other pre-existing meetings.

6 Jonathan Linen was unable to attend one Board meeting, one Nomination Committee meeting and one Remuneration Committee meeting due to a personal commitment.

7 Luke Mayhew was appointed as a Director and Chairman of the Remuneration Committee on 1 July 2011: attended all Board and Committee meetings from this date onwards.

8 Dale Morrison was appointed as a Director on 1 June 2011: attended all Board and Committee meetings from this date onwards except one Nomination Committee meeting due to an overseas travel commitment.

9 Ying Yeh was appointed to the Corporate Responsibility Committee effective 1 June 2011: attended all respective Committee meetings from this date onwards.

10 Andrew Cosslett retired as a Director on 30 June 2011: attended all Board meetings prior to this date.

11 James Abrahamson resigned as a Director on 13 June 2011: attended all Board meetings prior to this date except one due to illness.

12 Ralph Kugler retired as a Director and as Chairman of the Remuneration Committee on 30 June 2011: attended all Board and Committee meetings prior to this date except one Nomination Committee meeting due to an overseas travel commitment.

The principal Committees of the Board are:

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 2011, the other Committee members were Graham Allan, Ralph Kugler (until his retirement on 30 June 2011), Jennifer Laing and Dale Morrison. The Committee is scheduled to meet at least four times a year and met five times in 2011. The Audit Committee's role is described on page 52.

Remuneration Committee

The Remuneration Committee, chaired by Luke Mayhew, also comprises the following independent Non-Executive Directors: David Kappler, Jonathan Linen and Ying Yeh. Luke Mayhew succeeded Ralph Kugler as Chairman of the Committee on 1 July 2011. It meets at least four times a year and met five times during 2011. The Remuneration Committee's role is described on page 55.

Nomination Committee

The Nomination Committee comprises the Chairman of the Board and all the Non-Executive Directors. It is chaired by the Chairman of the Board except when matters relating to this position are discussed, in which case it is chaired by an independent Non-Executive Director. It meets at least twice a year and additional meetings are held as necessary. The Committee met four times during 2011. The Nomination Committee's role is described on page 53.

Corporate Responsibility Committee

The Corporate Responsibility Committee is chaired by Jennifer Laing. During 2011, the other Committee members were Graham Allan, Ralph Kugler (until his retirement on 30 June 2011), Luke Mayhew, Richard Solomons and Ying Yeh. Meetings are regularly attended by other members of the Board and Executive Committee. The Committee is scheduled to meet at least twice a year and met three times in 2011. The Corporate Responsibility Committee's role is described on page 31.

Other Committees that report to the Board are:

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

Director induction, training and development

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. Luke Mayhew and Dale Morrison, as Non-Executive Directors appointed in 2011, participated in such a programme.

By way of example, Luke Mayhew received an induction programme covering a variety of areas including the Board structure and its Committees, Group structure and strategy, the principal activities of the Group and its approach to risk and risk management. His programme was supported by meetings with both senior executives and regional and central management from various functions across the Group, including Human Resources, Corporate Affairs, Strategy and Corporate Development, Global Internal Audit and Financial Planning and Analysis. Meetings were also arranged by Investor Relations for him to meet institutional investor groups and key institutional investors to gain an understanding of their views. Mr Mayhew also visited our office in Singapore to provide him with a greater insight into the business.

Comprehensive induction programmes are also put in place for any Executive Director who may join the Group and tailored induction is provided for Executive Directors appointed from within the Group, focusing on their responsibilities as Board Directors. Such programmes were implemented for Tracy Robbins and Thomas Singer on their appointments on 9 August 2011 and 26 September 2011 respectively. We announced on 16 March 2011 that Richard Solomons would succeed Andrew Cosslett as Chief Executive. Following a three and a half month transition and handover period, Richard became Chief Executive on 1 July 2011. All induction programmes accord with best practice guidelines.

The updating of all Directors' skills and knowledge, ongoing training and development and understanding of the Group's business and operations is a progressive exercise. This is accomplished at Board and Committee meetings through business presentations and by visits to hotels and other premises in the regions. During 2011, the Directors also received briefings on a number of legal and regulatory developments, including the impact of the UK Bribery Act 2010, reforms to the UK Takeover Code and a presentation from Ernst & Young LLP on the European Commission's Audit Regulation proposals. The Chairman regularly reviews and agrees training and development needs with each Director. In addition, the Company Secretary regularly asks the Board if they wish to receive training or additional information to enable them to keep up-to-date and enhance their knowledge of the business.

Independent advice

There is an agreed procedure by which members of the Board and any of its Committees may take independent professional advice in the furtherance of their duties at the Company's expense. In addition, they have access to the advice and services of the Company Secretary, the Company's external legal advisers and the external auditors.

Board performance evaluation

IHG has always recognised the importance of evaluating the performance of the Board, its main Committees and its Directors. Accordingly, an independent external facilitator assists in the performance evaluation in alternate years.

The 2010 evaluation, which was conducted internally by the Company Secretary, identified the following areas as requiring action and during 2011 we made progress on each of these as follows:

Area identified	Action taken
The Board should devote sufficient time to consider strategic issues	Specific Board time was scheduled into the Board calendar to discuss strategy more regularly
Non-Executive Directors should be provided with enough opportunities to meet together without Executive Directors being present	Separate meetings were scheduled and attended only by Non-Executive Directors
Non-Executive Directors should provide an appropriate amount of time for Board communication with institutional investors	The Chairman and Non-Executive Directors made themselves available to meet with institutional investors on specific matters in relation to the Board during the year

The 2011 evaluation was conducted with external assistance in accordance with the guidance in the Code during January 2012. Our evaluation was conducted by Lintstock Limited, an independent facilitator, who has no other connection with IHG.

The Board evaluation involved the completion of comprehensive questionnaires in which Directors and the Company Secretary were asked to evaluate the Board, each of its Committees and their respective Chairman and the Chairman of the Board. The questionnaires covered a variety of subjects, including Board composition, appointments, succession planning and dynamics, induction and ongoing training and development, board expertise and how the Board spends its time. Directors' views were sought on the Board's strategic and operational oversight and its input into risk management and internal control. They were also asked about investor and stakeholder relationships. The Board was asked to provide views on how improvements could be made and key priorities that the Board should consider with respect to its performance.

The Chairman's performance was appraised through feedback from the other Directors through the use of the externally produced questionnaire. The results were reviewed by the Senior Independent Director together with the Non-Executive Directors without the Chairman. All the Non-Executive Directors, including the Chairman, met to appraise the Chief Executive's performance. The Chairman also separately discussed with each Non-Executive Director their own performance.

The Board received feedback on the outcomes through a report compiled by Lintstock Limited, which was presented and discussed at the Board meeting held in February 2012. The results confirmed that the Board and each of its main Committees continues to operate effectively and that each Director continues to make an effective contribution and retains a strong commitment to the role.

The following actions for the Board were identified for 2012:

- improve meeting processes to enable more time for wider Board discussion;
- allot adequate time on agendas to review the effectiveness of past decisions;
- continue to encourage discussion on key strategic issues facing the Group; and
- build upon and improve oversight of the main risks affecting the Group.

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 (AGM) following their appointment and those Directors who have not been subject to re-election by shareholders within the last three years, must retire and stand for re-election at the next AGM. The office of a Director shall be vacated in the circumstances defined in Article 85 of the Articles of Association, for example, prohibition by law, bankruptcy, absence without leave.

The Code recommends that all Directors of FTSE 350 companies submit themselves for annual re-election. All members of the Board have agreed to retire from office and offer themselves for election or re-election (as appropriate) at the next AGM.

The Notice of Annual General Meeting, sent to shareholders at the same time as this Annual Report, provides further information about the Directors standing for election and re-election. The Nomination Committee and the Board reviewed the independence of each Non-Executive Director and concluded that each of them continues to remain independent in judgement and character. Information on Executive Directors' service contracts and Non-Executive Directors' letters of appointment is set out on page 63. All Directors' service contracts and letters of appointment are available for inspection by shareholders in accordance with relevant legislation.

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 provide 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. Facilitated, structured meetings are encouraged and any new Director is available for meetings with major shareholders as a matter of course.

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.

Additionally, the AGM provides a useful forum for one-to-one communication with private shareholders, many of whom are also customers. At the AGM, shareholders receive presentations on the Company's performance and may ask questions of the Board, including the Chairman and Chairmen of the main Board Committees.

IHG facilitates both postal and electronic voting and all resolutions are voted on by way of a poll. This ensures that all votes are counted on the basis of one vote for every share held. All votes cast in respect of each resolution at the AGM are published on the Company's website immediately after the AGM. Information on share capital and substantial shareholdings in the Company is set out in the Directors' report found on page 44.

A comprehensive range of information about the Group is maintained and available to shareholders through the Company's website, www.ihgplc.com.

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 Committee's composition and the attendance of its members at meetings during 2011 are set out on pages 48 and 49. 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 qualifications and experience of the other Committee members are detailed on pages 42 and 43.

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/committees or from the Company Secretary's office on request. The Committee's principal responsibilities are to:

- review the Group's public statements on internal control, risk management 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. The audit and non-audit fees paid to the external auditor, Ernst & Young LLP, during 2011 are detailed on page 88.

During 2011, the Audit Committee met five times and it considered various matters including the following:

- the 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 external auditor's quarterly, interim and full-year reports;
- 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 effectiveness of the external auditor and consideration of their objectivity, independence and reappointment. Accordingly, the Committee recommended to the Board the reappointment of Ernst & Young LLP as the external auditor, having reviewed its independence and effectiveness. The external auditor is required to rotate the lead partner every five years. The current lead audit partner has been in place for less than one year;
- 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;
- overseeing 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 2002 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;
- 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.

Under its terms of reference, the Audit Committee reviews, prior to endorsement by the Board, IHG's statement on internal control and risk management. The Audit Committee has conducted a review of the effectiveness of the system of internal control and risk management during the year ended 31 December 2011. The review was carried out through the monitoring process set out above, which accords with the Code and Turnbull Guidance. The Audit Committee has concluded that the Group's systems of internal control and risk management during the year are operating effectively.

David Kappler
Chairman of the Audit Committee
13 February 2012

NOMINATION COMMITTEE REPORT

The Nomination Committee is appointed by the Board and comprises the Chairman of the Board, who is Chairman of the Committee, and all Non-Executive Directors. The Chairman does not chair when the Committee is considering matters relating to this position, in which circumstances, the Committee is chaired by an independent Non-Executive Director, usually the Senior Independent Director.

Role and responsibilities

The main responsibilities of the Nomination Committee are summarised below and its full 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 Committee:

- reviews the structure, size and composition of the Board and its Committees;
- evaluates the balance of skills, experience, independence, knowledge and diversity on the Board and in light of that defines a description of the relevant role and capabilities required for a particular appointment;
- makes recommendations on suitable candidates for approval by the Board;
- engages external consultants to advise on candidates for Board appointments and ensures that appointments are made on merit, against objective criteria, including the ability to commit time, and with due regard for the benefits of diversity, including gender; and
- advises the Board on succession planning for Executive and Non-Executive Directors and the Executive Committee, assists in identifying and developing the role of the Senior Independent Director and will also consider the reappointment of any Non-Executive Director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required and the need for progressive refreshing of the Board.

Activities in 2011

During 2011, the Nomination Committee held four meetings and the attendance of its members at these meetings is set out on page 48. Some of the specific items considered included:

Executive appointments

The Committee managed the search for a suitable candidate for the appointment of Chief Financial Officer. The Committee engaged the services of an external consultant for this. The search was undertaken against a detailed job specification setting out the particular skills, knowledge and experience required for this particular executive position and included consideration of both internal and external candidates. Accordingly, the Committee nominated Thomas Singer for the position and he was subsequently appointed by the Board with such appointment effective from 26 September 2011. As a testament to our strong internal management capability and succession planning, the Committee recommended the appointments of Richard Solomons, previously Chief Financial Officer and Head of Commercial Development, to the role of Chief Executive effective as of 1 July 2011 and Kirk Kinsell, previously President, Europe, Middle East and Africa, as successor to the role of President, The Americas on 13 June 2011. The Committee also recommended the appointment of Tracy Robbins as an Executive Director, who joined the Board on 9 August 2011.

Non-Executive Director appointments

When recruiting Non-Executive Directors, the Committee considers the skills, experience, knowledge and diversity that would benefit both the Board and its Committees. In 2011, it engaged external consultants and briefed them on the attributes and skills needed by the business for Non-Executive Director roles and candidates were shortlisted for interview against objective criteria. Following this process, the Committee recommended the appointments of Dale Morrison as a new Non-Executive Director and Luke Mayhew as a Non-Executive Director and Chairman of the Remuneration Committee succeeding Ralph Kugler who retired from the Board. They were appointed to the Board with effect from 1 June 2011 and 1 July 2011 respectively.

Diversity

IHG recognises the importance and benefits of diversity, including gender balance, throughout its global business and is committed to supporting women in reaching their full potential. IHG's commitment to diversity throughout the organisation is set out on page 30. Currently IHG has three female Directors, out of a total of twelve Board members, and two women on our Executive Committee. It is our aspiration to continue to retain a minimum of 25% female representation on the Board. We also look at diversity more broadly to ensure that the Board has the right balance of independence, skills, knowledge and experience.

David Webster
Chairman of the Nomination Committee
13 February 2012

REMUNERATION REPORT

Dear Shareholder

There has been increased focus on executive pay during 2011. We have looked to reflect as far as possible the transparency sought by the UK Government. However, at the time of writing this report, we await final detailed proposals.

We remain confident that IHG's remuneration plans and outcomes are aligned with the delivery of business performance and strategy and that our approach is appropriate to attract and retain the talent needed to build shareholder returns in this global business.

However, we also recognise the need to explain and justify clearly the level of Executive Directors' remuneration and how and why bonuses and long-term incentives have been earned.

We continue to try to make this report easier to read and assess. We have expanded the explanation of the strong link between business strategy and Executive Directors' remuneration. We have also set out what we consider the best measure of the actual remuneration for the year, being:

- the cash the Executive Directors received in salary and bonus for 2011; plus
- the value of the deferred shares received for 2011 performance; plus
- the value of the 2009/2011 Long Term Incentive Plan (LTIP) award triggered by performance for the three years up to and including 2011.

We believe these are the most relevant figures for shareholders to focus on as they represent the remuneration generated by employment and performance in the year.

Performance in 2011

The remuneration outcomes reflect strong results with the Board recommending a final dividend which will deliver a 15% full-year increase for shareholders.

Key performance indicator growth (per annum)

	2011	2010
Earnings before interest and tax (EBIT)	**+26.0%**	+22.6%
Three-year total shareholder return (TSR)*	**+29.8%**	+8.0%
Three-year adjusted earnings per share (EPS)*	**+2.5%**	+9.6%

* Annualised

Based on these results, 2011 Annual Bonus Plan (ABP) outcomes consisted of a cash bonus of up to 86.5% of base salary, and an award of deferred shares with a value of up to 86.5% of base salary, which will vest after three years (subject to continued employment). The 2009/2011 LTIP vested at 73.9% of maximum, representing 151.5% of base salary for Executive Directors who participated in the full three-year cycle.

Remuneration in 2011

The maximum annual bonus under the ABP reverted to 200% of base salary after temporary changes made in the preceding two years to recognise the volatility of the economic environment.

There has been particular focus by the Remuneration Committee (the Committee) in 2011 on the LTIP and the UK defined benefit pension plan.

The maximum LTIP award remained at 205% of base salary having been reduced in 2009 from 270% of base salary.

In the previous Remuneration report, we introduced two new performance measures for the 2011 LTIP award to enhance alignment of the plan to the Company's strategy. These measures will apply to the 2011/2013 LTIP cycle award, which will vest in 2014, and subsequent awards; they are net rooms growth and like-for-like revenue per available room (RevPAR) growth. Each of these measures accounts for 25% of the LTIP weighting and are measured relative to major competitors. Relative TSR will continue to account for 50% of the LTIP weighting.

Following a review of the UK defined benefit pension plan, its closure to future accruals with effect from 1 July 2013 was announced. Active plan participants, including Richard Solomons, will be aligned with other employees on a consistent defined contribution structure. From 1 July 2013, the value of defined benefit pensions on retirement will be linked to inflation rather than to future salary increases. In line with other employees, participating Executive Directors will not receive any cash compensation for the impact this will have on their pension benefits.

As part of the consultation with employees and the plan trustees about these changes, it was agreed that the Enhanced Early Retirement Facility, which provides an option for plan members retiring with the Company's agreement to retire within five years of normal retirement age on accrued benefits without reduction, would be retained. The level of plan funding provides for this facility. The Committee considered that the reduction in risk and expense achieved by closing the defined benefit plan justified the cost of retaining this facility for the existing active members of the plan.

Board changes in 2011

It was a year of significant change among the senior team with Richard Solomons, Chief Financial Officer and Head of Commercial Development, succeeding Andrew Cosslett as Chief Executive, who retired from the role in July. Kirk Kinsell took over as President, The Americas on James Abrahamson's resignation in June, and Tracy Robbins was promoted to the Board in August. Richard was succeeded in his role as Chief Financial Officer by Thomas Singer who joined from Bupa. More detail on these changes and these Directors' remuneration arrangements is included on page 59.

Remuneration in 2012

Following the changes to the structure of the 2011 incentive plans, the design and measures for the 2012 plans will remain effectively unchanged. However, we have introduced Committee discretion to claw back unvested share awards in exceptional circumstances. Further details of this are set out on page 57.

During 2012 we will be revisiting the ABP structure to ensure it continues to be designed optimally to drive and reward the annual financial and individual performance required to deliver our corporate strategy. We will report back on any outcomes next year.

Luke Mayhew
Chairman of the Remuneration Committee
13 February 2012

Introduction

This report sets out the remuneration policy for the Company's Directors, describes its implementation, and sets out the amounts paid in 2011. It has been prepared by the 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 (AGM).

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 2011	Date of appointment to Committee
Ralph Kugler	Chairman*	3/**3**	1 June 2008
Luke Mayhew	Chairman*	2/**2**	1 July 2011
David Kappler	Member	5/**5**	21 June 2004
Jonathan Linen	Member	4/**5**	1 December 2005
Ying Yeh	Member	5/**5**	1 December 2007
Total meetings held		**5**	

* Ralph Kugler retired from the Board on 30 June 2011. Luke Mayhew was appointed to the Board as Chairman of the Remuneration Committee on 1 July 2011.

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 until 30 June 2011)

Richard Solomons (Chief Executive from 1 July 2011)

Tracy Robbins (Executive Vice President, Human Resources and Head of Operations Support)

Lori Gaytan (Senior Vice President, Americas Human Resources and Global Reward)

None of the aforementioned 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 2011, and which can be found on the Company's website www.ihgplc.com/investors under corporate governance/committees or from the Company Secretary's office on request. 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.

The Committee meets to discuss matters relating to the operation of the remuneration policy and emerging market practices. In 2011, the Committee met five times and discussed, amongst others, the following matters:

Meeting	Agenda items discussed
10 February 2011	• 2010 ABP and 2008/2010 LTIP vesting; • 2011 ABP and 2011/2013 LTIP designs; • Executive Committee performance and salary review; and • 2010 Remuneration report.
18 February 2011	• Potential retirement of Andrew Cosslett; and • potential appointment of Richard Solomons as Chief Executive.
29 June 2011	• IHG Pension Plan arrangements: discussion on closure of the UK defined benefit plan; and • potential recruitment and Board appointment of Thomas Singer.
4 August 2011	• Update of 2011 Executive Committee Key Performance Objectives (KPOs); and • potential appointment of Tracy Robbins to the Board.
3 November 2011	• Introduction of claw back for LTIP and ABP deferred share awards; • executive remuneration issues, including a review of government and third-party proposals and market practice and trends; • IHG Pension Plan arrangements: defined benefit plan closure communications timeline; • Chairman's fee for 2012; and • annual review of terms of reference.

REMUNERATION REPORT continued

Throughout 2011, the Committee retained PricewaterhouseCoopers LLP (PwC), as independent consultants. 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 levels applicable in the markets relevant to the Group. Towers Watson did not provide any other remuneration services to the Group during 2011; and
- Freshfields Bruckhaus Deringer LLP provided other legal services to the Group throughout 2011.

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

2. Business strategy and remuneration

IHG's remuneration approach is designed to support and reflect the delivery of business strategy by:

- attracting and retaining high quality executives in an environment where compensation is based on global market practice;
- aligning rewards for executives with the achievement of business performance targets, strategic objectives and returns to shareholders;
- supporting equitable treatment between members of the same executive team; and
- facilitating global assignments and relocation.

IHG's remuneration structure for senior executives places a strong emphasis on performance-related reward. The Committee believes that it is important to reward management, including the Executive Directors, for targets achieved, provided those targets are stretching.

Business strategy is the driver of our reward structure. The business strategy is explained on pages 9 to 14.

We show below how IHG's Vision and strategy directly link to the current measures used in IHG's incentive plans.

VISION AND STRATEGY

GREAT HOTELS GUESTS LOVE

...achieved through strategic priorities

WHERE WE COMPETE
Growing our core business in the largest markets where scale really counts, and also in key global gateway cities and resort destinations
Seeking opportunities to leverage our scale in new business areas

HOW WE WIN
Profitable market share
Progressive margins
Sustainable investment
Responsible business

REWARD MEASURES

NET ROOMS GROWTH
Supports our business model, segment and market strategies to grow system size over three years

EBIT
Provides annual focus on earnings growth driven by core operating inputs, namely rooms growth, RevPAR, royalty fees and profit margins

LIKE-FOR-LIKE RevPAR GROWTH
Reflects the sustainable power of our brands, scale and experience, and engaged workforce
Focuses growth on quality rooms in key markets

INDIVIDUAL OVERALL PERFORMANCE RATING
Provides annual focus on key performance objectives and leadership competencies for the role:
Best-in-class delivery – growth and other targets
Talented people – employee engagement survey results
Preferred brands – brand performance targets
Responsible business – adoption of Green Engage

TOTAL SHAREHOLDER RETURNS
Aligned with our Vision to become one of the world's great companies

LTIP measures

ABP measures

Individual reward elements for all Executive Directors and Executive Committee members 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' interests.

The following table shows a summary of the individual elements of remuneration provided to the Executive Directors, including the split of fixed and variable remuneration, assuming target performance is achieved on variable elements:

Reward element	Purpose	Performance measures	Payment	Reward type	% of total remuneration if target achieved
Base salary (cash)	• Recognises the market value of the role and the individual's skill, performance and experience.	n/a	Cash	Fixed	30%
ABP	• Drives and rewards annual performance of individuals and teams against both financial and non-financial metrics; • aligns individual employee objectives with those of the Group; and • aligns short-term annual performance with long-term returns to shareholders.	Individual performance and EBIT, measured over one year	½ cash ½ shares deferred for three years	Short-term variable	35%
LTIP	• Drives and rewards delivery of sustained long-term performance on measures that are aligned with the interests of shareholders.	Net rooms growth, RevPAR growth and TSR relative to a comparator group, measured over three years.	Shares	Long-term variable	35%

The ABP and LTIP are explained further on pages 60 and 61 and all Executive Directors have the same fixed to variable pay split. The normal policy for all Executive Directors and Executive Committee members is that their performance-related incentives will equate to approximately 70% of total remuneration if target performance is achieved (this excludes pensions and benefits).

The Committee also reviews the balance of fixed and variable remuneration provided to the wider management population, to ensure these are appropriate relative to the Executive Directors and to market practice. The next section shows the components of total remuneration for each Executive Director.

Introduction of claw back in incentive plans

For awards made from 2012, the ABP and LTIP will allow Committee discretion to claw back unvested share awards in the following exceptional circumstances:

- serious misconduct that causes significant damage or potential damage to IHG's prospects, finances or brand reputation; and/or
- actions that lead to material misstatement of accounts.

This change is further to ensure that there is proper alignment between rewards and shareholder returns and is in line with developing market practice in relation to share-based incentive plans.

REMUNERATION REPORT continued

3. Total remuneration

The chart below sets out the actual and potential maximum remuneration outcomes for 2011 performance for current Executive Directors excluding Thomas Singer, who joined IHG in 2011 and did not participate in the 2011 ABP or receive any vested awards during the year. The elements shown are as follows:

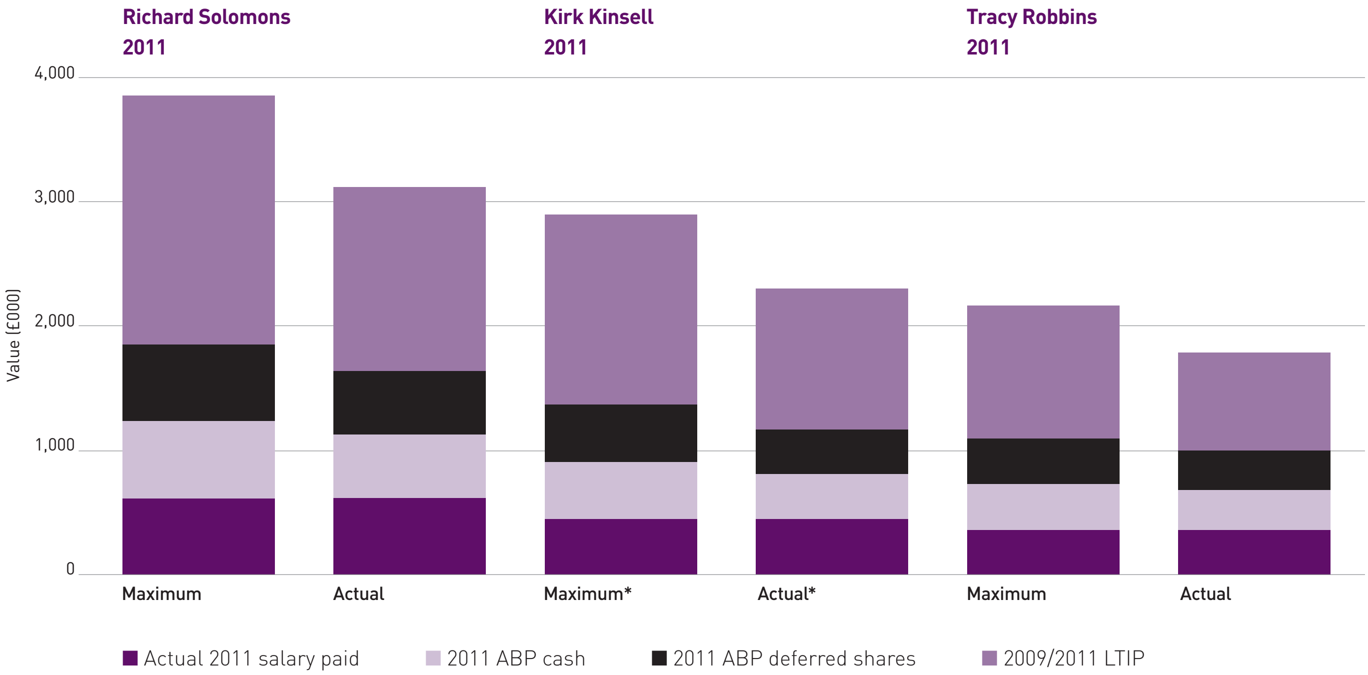
Actual 2011 salary paid – for Richard Solomons, this is his actual pay for the year and reflects the salary increase that occurred part way through the year in respect of his change in role to Chief Executive; for Kirk Kinsell this shows actual salary paid converted into sterling. For Tracy Robbins, who joined the Board part way through the year, this represents 2011 actual salary paid, including salary paid prior to becoming a Director;

2011 ABP cash – the cash portion of the ABP award made in respect of financial year 2011 performance;

2011 ABP deferred shares – the value of the deferred share portion of the ABP award made in respect of financial year 2011 performance; and

2009/2011 LTIP – the value at 31 December 2011, of the 2009/2011 LTIP award made in 2009, which will vest on 15 February 2012 based on performance for the three years up to and including 2011.

The maximum figures represent the maximum value of each element of remuneration that could have been received in each case by the Executive Director. For the 2009/2011 LTIP, the maximum value is based on the share price as at 31 December 2011.



* Kirk Kinsell is paid in US dollars and the sterling values in the chart above have been calculated using an exchange rate of $1=£0.62.

The percentage of total remuneration for 2011 that is performance-related exceeds the 70% level that would be payable for target performance. This reflects above-target performance for both the 2011 ABP and the 2009/2011 LTIP.

A more detailed explanation of how the individual elements of remuneration operate is given on pages 59 to 61.

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BUSINESS REVIEW
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GROUP FINANCIAL STATEMENTS
PARENT COMPANY FINANCIAL STATEMENTS
OTHER INFORMATION

4. Changes to the Board

Richard Solomons succeeded Andrew Cosslett as Chief Executive on 1 July 2011 and his annual base salary increased to £700,000 from this date. As Mr Solomons was previously an Executive Director in his prior role as Chief Financial Officer and Head of Commercial Development at IHG, his incentive arrangements remained unchanged.

Andrew Cosslett retired from his position as Chief Executive, and his contract of employment and directorship terminated, on 30 June 2011. There was no payment in respect of loss of office. In accordance with the current plan rules, the Committee released all ABP deferred shares upon retirement as there were no further performance conditions that would affect the number of shares that could potentially vest; as a result 155,657 shares vested on 1 July 2011. Mr Cosslett continues to be eligible for a pro-rated vesting of his outstanding LTIP awards, which will be determined at the end of the relevant plan cycles, subject to performance conditions being achieved. In addition, Mr Cosslett received a pro-rated cash award under the 2011 ABP based on actual performance results at year end.

When Mr Cosslett ceased pensionable service on 30 June 2011, his accrued pension entitlement was £177,800 per annum before cash commutation. In line with the terms of the plan, he commuted part of this for a lump sum and immediately drew the remainder as pension.

Thomas Singer was appointed Chief Financial Officer on 26 September 2011. Mr Singer's annual base salary is £540,000 and his incentives are in line with IHG's remuneration policy for Executive Directors. Mr Singer did not participate in the 2011 ABP. In order to secure his recruitment, IHG agreed to compensate Mr Singer for incentives from his previous employer that he had to forgo, and the Committee approved the following one-off arrangements which apply to Mr Singer only:

- a cash payment of £480,000 to be paid in March 2012; and
- a restricted award of 46,635 shares which vests on 27 September 2012, one year from the date of grant. These shares will be forfeited if Mr Singer leaves the Company before the vesting date.

There are no performance conditions attached to these one-off arrangements and the awards are not pensionable. However it is expected that all shares that vest will be held by Mr Singer until he meets the expected shareholding set out on page 62.

In addition, to ensure immediate alignment to the long-term performance of IHG, pro-rated awards were made for the 2010/2012 LTIP cycle and the 2011/2013 LTIP cycle of 137% and 154% of salary respectively. Vesting of these awards is subject to the results of the performance conditions for the relevant plan cycle as outlined on page 61.

As part of his recruitment terms, it was agreed that Mr Singer would not have a salary review until April 2013.

Kirk Kinsell (formerly President, Europe, Middle East and Africa) succeeded **James Abrahamson** as President, The Americas following Mr Abrahamson's resignation from IHG on 13 June 2011. In accordance with his termination arrangements, all of Mr Abrahamson's outstanding deferred share awards under the ABP and unvested LTIP awards lapsed and he relinquished all rights to an annual bonus in respect of the 2011 ABP. No remuneration changes were made for Mr Kinsell as a result of his new appointment.

Tracy Robbins was promoted to the Board on 9 August 2011. Her annual base salary following promotion was increased to £400,000. However, as an Executive Committee member since joining IHG, Ms Robbins' incentive arrangements remained unchanged.

5. Base salary and benefits

The salary for each Executive Director is reviewed annually. Base salary is the only element of remuneration which is pensionable.

In reviewing potential salary changes, the Committee considers business and individual performance, average salary increases for the wider IHG workforce and, where appropriate, the terms offered by comparator and competitor companies.

When external benchmarking is used, the comparator 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 addition, benefits are provided to Executive Directors in accordance with local market practice.

The current Executive Directors' annual base salaries are shown in the table below*:

Director	2012 £	2012 $	2011 £	2011 $
Richard Solomons	**721,000**		700,000	
Kirk Kinsell		**755,400**		737,000
Thomas Singer	**540,000**		540,000	
Tracy Robbins	**412,000**		400,000	

* Mr Kinsell is paid in US dollars and his annual base salary for 2011 and 2012 is shown in US dollars above. The equivalent sterling values calculated using an exchange rate of $1=£0.62 are 2011: £459,817 and 2012: £471,297. The 2011 annual base salary shown for Mr Solomons reflects his salary increase when appointed as Chief Executive. The 2011 annual base salaries shown for Mr Singer and Ms Robbins apply from the dates of their appointment to the Board.

REMUNERATION REPORT continued

6. Annual Bonus Plan

Structure and outcomes in 2011

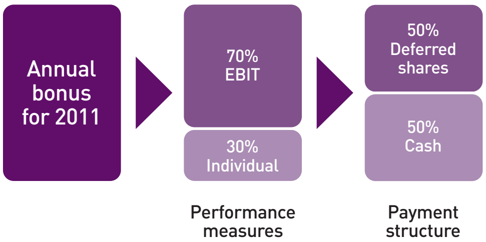
Awards under the ABP require the achievement of challenging performance goals before any bonus is payable. These goals are set annually following the Board review of the annual budget. The maximum annual award an Executive Director or Executive Committee member can receive in any one year is 200% of salary. Achievement of target performance results in an award of 115% of salary. Half of any award earned is paid in cash, and the other half is compulsorily deferred in the form of shares for three years. No matching shares are awarded by the Company.

Awards under the ABP are linked to individual performance and EBIT. Individual performance was measured by the achievement of specific individual KPOs linked directly to the Group's strategic objectives, a selection of which is set out in the table on page 56, and an assessment against leadership competencies and behaviours. The KPOs are reviewed and agreed by the Committee.

Each year, specific quantitative targets and strategic objectives are set for each Executive Director and Executive Committee member, as relevant to their role. Performance is reviewed at the end of each year to determine an Overall Performance Rating (OPR). The OPR determines 30% of the annual award outcome. The OPR is reviewed and agreed by the Committee.

EBIT performance determines 70% of the annual award outcome. In 2011 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 award would be made on any measure if EBIT performance was lower than 85% of target.

A summary of the operation of the 2011 ABP is shown below.



For 2011, EBIT achieved was 104.1% of target for the year. Based on this performance, the following table shows the level of 2011 awards, of which 50% was paid in cash and 50% in deferred shares that will vest after three years:

		Award as % of salary	
Measure	Key performance indicator	Target	Max
Financial	EBIT (70%)	80.5	161
Individual	OPR (30%)	34.5	69
	Total for 2011	**115.0**	**200***

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

Actual 2011 result for current Executive Directors (as % of salary)

Director	EBIT % payout	OPR % payout	Total % payout
Richard Solomons	113.5	51.8	165.3
Kirk Kinsell	113.5	43.1	156.6
Thomas Singer*	N/A	N/A	N/A
Tracy Robbins	113.5	60.4	173.9

* Mr Singer did not participate in the 2011 ABP.

Structure in 2012

The annual bonus structure remains largely unchanged in 2012 with awards under the ABP continuing to require the achievement of challenging EBIT goals before target bonus is payable.

7. Long Term Incentive Plan

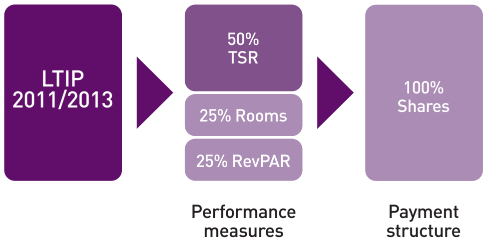
The LTIP allows Executive Directors and eligible management employees to receive share awards, subject to the achievement of performance conditions set by the Committee, measured over a three-year period. Awards are made annually and, other than in exceptional circumstances, will not exceed three times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

Details on the performance conditions and outcome/current position for all outstanding awards as at 31 December 2011 are shown in the table on page 61.

For the 2011/2013 cycle, maximum awards were made at 205% of base salary. The performance conditions for the cycle are:

- IHG's TSR relative to the Dow Jones Global Hotels (DJGH) index (50% of the award);
- cumulative annual growth of net rooms (25% of the award); and
- cumulative annual like-for-like RevPAR growth (25% of the award).

Growth in both rooms and RevPAR will be measured on a relative basis against a comparator group of the major globally branded competitors: Accor, Choice, Hilton, Hyatt, Marriott, Starwood and Wyndham. A summary of the operation of the 2011/2013 LTIP cycle is shown below.



Threshold vesting will occur if IHG's TSR growth is equal to the DJGH index. Maximum vesting will occur if IHG's TSR growth exceeds the index by 8% or more, which is equivalent over time to upper quartile or better performance. In setting the TSR performance target, the Committee has taken into account a range of factors, including IHG's strategic plans, historical performance of the industry, and FTSE 100 market practice.

For both rooms growth and RevPAR measures, threshold vesting will occur if IHG performance at least equals the average of the comparator group. Maximum vesting for either measure will only occur if IHG is ranked first in the comparator group. Vesting for points between threshold and maximum will be calculated on a straight-line basis.

After testing the performance conditions set on grant, the Committee will review the vesting outcomes of the rooms and RevPAR measures against an assessment of earnings and quality of Company financial performance over the period. The Committee may reduce the number of shares which vest if they determine such an adjustment is appropriate. IHG's performance and vesting outcomes will be fully disclosed and explained in the relevant Remuneration report.

The LTIP structure remains consistent for the 2012/2014 cycle, with the award level of 205% of salary maintained. Performance conditions will remain TSR relative to the DJGH index, cumulative growth of net rooms and cumulative growth in like-for-like RevPAR.

The awards for 2009/2011 and 2010/2012 have performance conditions based on relative TSR and EPS.

There is no re-testing of performance conditions under the LTIP, and awards lapse if they are not met.

The specific vesting performance conditions and, where relevant, position as at 31 December 2011 for the vested, outstanding and next conditional LTIP awards are set out in the following table:

Performance measure	Threshold performance	Maximum performance	Threshold[1] vesting	Maximum[1] vesting	Weighting	Maximum award	Outcome/ current position
2009/2011 cycle							
TSR	Growth equal to the DJGH index	Growth exceeds the index by 8% or more	20%	100%	66.7%	102.5%	Growth exceeded index by 7.9%
EPS	Growth of 0% per annum	Growth of 10% per annum or more	0%	100%	33.3%	102.5%	Growth of 2.5% per annum
Total vesting outcome							**73.9% of maximum award**
2010/2012 cycle[2]							
TSR	Growth equal to the DJGH index	Growth exceeds the index by 8% or more	20%	100%	50%	102.5%	Growth after two years exceeds index by 3.9%
EPS	Growth of 5% per annum	Growth of 15% per annum or more	20%	100%	50%	102.5%	Growth after two years of 20.4% per annum
2011/2013 cycle[3]							
TSR	Growth equal to the DJGH index	Growth exceeds the index by 8% or more	20%	100%	50%	102.5%	Growth after one year exceeds index by 4.5%
Net rooms growth	Average of the comparator group	1st in the comparator group	20%	100%	25%	51.25%	Will partially vest if current level of performance continues
RevPAR growth	Average of the comparator group	1st in the comparator group	20%	100%	25%	51.25%	Will partially vest if current level of performance continues
2012/2014 cycle							
TSR	Growth equal to the DJGH index	Growth exceeds the index by 8% or more	20%	100%	50%	102.5%	–
Net rooms growth	Average of the comparator group	1st in the comparator group	20%	100%	25%	51.25%	–
RevPAR growth	Average of the comparator group	1st in the comparator group	20%	100%	25%	51.25%	–

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

2 Two years of cycle completed.

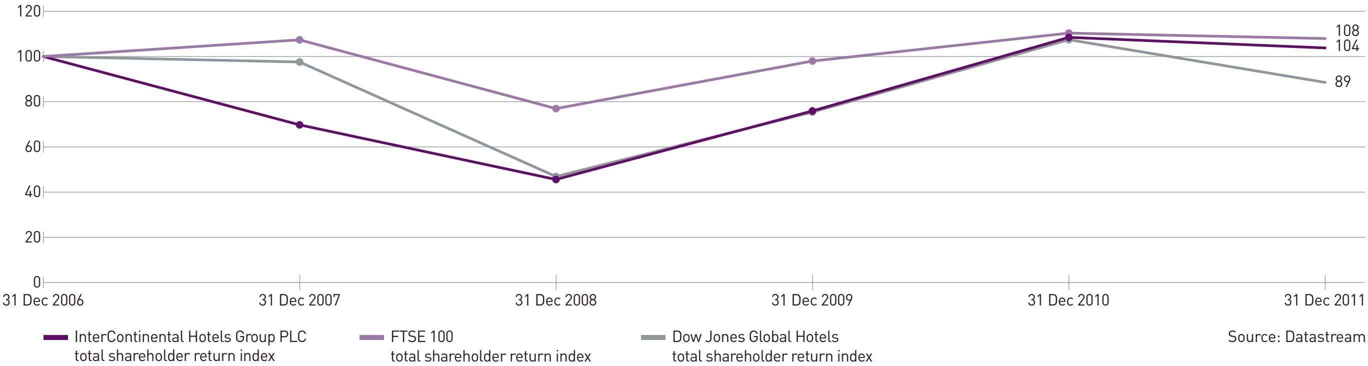
3 One year of cycle completed.

REMUNERATION REPORT continued

8. Performance graph

Throughout 2011, the Company was a member of the FTSE 100 index and, for remuneration purposes, used a TSR comparator group of the DJGH 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 2006 to 31 December 2011, assuming dividends are reinvested, compared with the TSR performance achieved by the FTSE 100 index and the DJGH index. Over the five-year period, IHG's TSR performance increased by just under 4%. Over the last three years, it out-performed the FTSE 100 index and the DJGH index.

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



Source: Datastream

9. 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 the value of 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.

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

Director	Guideline shareholding as % of salary	Actual shareholding at 31 Dec 2011 as % of salary[1]
Richard Solomons	300	417
Kirk Kinsell	200	276
Thomas Singer[2]	200	–
Tracy Robbins[3]	200	125

1 Based on share price of 1,157p per share as at 31 December 2011.

2 Shareholding requirement took effect upon appointment to the Board on 26 September 2011.

3 Shareholding requirement took effect upon appointment to the Board on 9 August 2011.

Executive share options

From 2006, executive share options have not formed part of the Company's remuneration structure. Details of prior share option grants are given on page 68.

Share capital

No awards or grants over shares were made during 2011 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.

10. Policy regarding pensions

Following an extensive UK pensions review and subsequent consultations with affected employees, it was announced on 29 September 2011 that the UK registered defined benefit InterContinental Hotels UK Pension Plan (the IC Plan) would close to future accrual for existing members with effect from 1 July 2013. The IC Plan is already closed to new entrants. A cap on pensionable salary increases of RPI plus 2.5% per annum became effective on 1 October 2011.

Richard Solomons and other senior UK-based executives participate on the same basis in the executive section of the IC Plan, and, if appropriate, the InterContinental Executive Top-Up Scheme (ICETUS). This is an unfunded arrangement, but with appropriate security provided via a fixed charge on a hotel asset. ICETUS also closes to future accrual with effect from 1 July 2013. As an alternative to these pension arrangements, a cash allowance may be taken. Andrew Cosslett, who ceased to be a Director on 30 June 2011, also participated in the IC Plan and ICETUS.

Tracy Robbins participates in the executive defined contribution section of the IC Plan on the same basis as other senior UK-based employees. Thomas Singer receives a salary supplement in lieu of pension benefits.

Kirk Kinsell and other senior US-based executives participate in US retirement benefit plans. James Abrahamson, who ceased to be a Director on 13 June 2011, also participated in the US retirement benefit plan. Executives outside the UK and US participate in the InterContinental Hotels Group International Savings and Retirement Plan or other local plans.

Further details on the Directors' pension arrangements are shown on page 65.

11. Non-Executive Directors' pay policy and structure

Non-Executive Directors are paid a fee which is agreed by the Board and the Chairman, taking into account fees paid in other companies of a similar complexity. These fees also reflect the time commitment and responsibilities of the roles. Accordingly, higher fees are payable to the Senior Independent Director who chairs the Audit Committee and to the Chairmen of the Remuneration and Corporate Responsibility Committees, reflecting the additional responsibilities of these roles. The Chairman's fees are agreed by the Committee.

Non-Executive Directors' fee levels are reviewed annually. In the final quarter of 2011 an increase of approximately 2% for the Non-Executive Directors was agreed from 1 January 2012. This increase is broadly in line with anticipated salary increases for executive and senior management employees across the wider organisation. The Chairman waived any right to an increase in respect of his fees for 2012.

The following table sets out the change in annual fee rates from 2011 to 2012 for the Non-Executive Directors:

Director	Role	Fees at 1 Jan 2012 £	Fees at 1 Jan 2011 £
David Webster	Chairman	**406,000**	406,000
David Kappler	Senior Independent Director and Chairman of Audit Committee	**105,060**	103,000
Luke Mayhew*	Chairman of Remuneration Committee	**88,230**	–
Jennifer Laing	Chairman of Corporate Responsibility Committee	**77,520**	76,000
Others	Non-Executive Director	**66,300**	65,000

* Luke Mayhew became Chairman of the Remuneration Committee on 1 July 2011.

12. Service contracts

Policy

The Committee's policy is for Executive Directors to have rolling contracts with a notice period of 12 months. Richard Solomons, Thomas Singer, Kirk Kinsell and Tracy Robbins have service agreements with a notice period of 12 months. All new appointments will have 12-month notice periods, unless, on an exceptional basis to complete an external recruitment successfully, a longer initial notice period reducing to 12 months is used, in accordance with the UK Corporate Governance 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.

Current Executive Directors hold no non-executive directorships of other companies. However, 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.

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.

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 pages 42 and 43.

Directors' contracts

	Date of original appointment[1]	Notice period
Current Executive Directors		
Richard Solomons[2]	10.2.03	12 months
Kirk Kinsell[3]	1.8.10	12 months
Tracy Robbins	9.8.11	12 months
Thomas Singer	26.9.11	12 months
Former Directors		
Andrew Cosslett[4]	3.2.05	
James Abrahamson[5]	1.8.10	
Ralph Kugler[6]	15.4.03	

	Date of original appointment[1]	Notice period
Current Non-Executive Directors		
David Webster	15.4.03	6 months
Graham Allan	1.1.10	
David Kappler	21.6.04	
Jennifer Laing	25.8.05	
Jonathan Linen	1.12.05	
Luke Mayhew	1.7.11	
Dale Morrison	1.6.11	
Ying Yeh	1.12.07	

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

2 Richard Solomons served as Chief Financial Officer and Head of Commercial Development until 30 June 2011 and became Chief Executive on 1 July 2011.

3 Kirk Kinsell became President, The Americas on 13 June 2011, having previously served as President, Europe, Middle East and Africa.

4 Andrew Cosslett retired on 30 June 2011.

5 James Abrahamson resigned on 13 June 2011.

6 Ralph Kugler retired on 30 June 2011.

REMUNERATION REPORT continued

From this point forward the information, which is provided in accordance with statutory and/or regulatory requirements, has been audited by Ernst & Young LLP.

13. Audited information on Directors' emoluments

Directors' remuneration in 2011

The following table sets out the remuneration paid or payable to the Directors in respect of the year to 31 December 2011.

	Basic salaries and fees		Performance payments[1]		Benefits[2]		Total emoluments excluding pensions	
	2011 £000	2010 £000	**2011 £000**	2010 £000	**2011 £000**	2010 £000	**2011 £000**	2010 £000
Executive Directors								
Andrew Cosslett[3]	**419**	820	**740**	723	**15**	28	**1,174**	1,571
Richard Solomons[4]	**616**	520	**512**	458	**20**	18	**1,148**	996
James Abrahamson[5]	**212**	196	**16**	178	**27**	6	**255**	380
Kirk Kinsell[6]	**449**	193	**360**	169	**334**	74	**1,143**	436
Tracy Robbins[7]	**159**	–	**145**	–	**39**	–	**343**	–
Thomas Singer[8]	**142**	–	**–**	–	**45**	–	**187**	–
Non-Executive Directors								
David Webster	**406**	398	**–**	–	**–**	–	**406**	398
Graham Allan	**65**	63	**–**	–	**–**	–	**65**	63
David Kappler	**103**	100	**–**	–	**–**	–	**103**	100
Ralph Kugler[9]	**43**	84	**–**	–	**–**	–	**43**	84
Jennifer Laing	**76**	74	**–**	–	**–**	–	**76**	74
Jonathan Linen	**65**	63	**–**	–	**–**	–	**65**	63
Luke Mayhew[10]	**43**	–	**–**	–	**–**	–	**43**	–
Dale Morrison[11]	**38**	–	**–**	–	**–**	–	**38**	–
Ying Yeh	**65**	63	**–**	–	**–**	–	**65**	63
Former Directors[12]	**–**	–	**–**	–	**1**	1	**1**	1
Total	**2,901**	2,574	**1,773**	1,528	**481**	127	**5,155**	4,229

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 66.

2 Benefits incorporate all tax assessable benefits arising from the individual's employment. This includes, but is not limited to, benefits such as the provision of a fully expensed company car, private healthcare, financial counselling and other benefits as applicable to the individual's work location.

3 Andrew Cosslett retired as Chief Executive on 30 June 2011. His base salary, ABP payment (which was paid all in cash) and benefits have been pro-rated to his date of retirement.

4 Richard Solomons succeeded Andrew Cosslett as Chief Executive on 1 July 2011.

5 James Abrahamson resigned as a Director on 13 June 2011. His base salary and benefits (these include payment for unused holiday on termination) have been pro-rated to his date of leaving. His pro-rated base salary received was $339,803 which equates to the figure in the above table, using an exchange rate of $1=£0.62. He did not receive an ABP payment. The performance payment relates to his cash payment in lieu of dividends, paid prior to his resignation, relating to his ABP deferred shares as outlined on page 66 and his special share award on page 67.

6 Kirk Kinsell received base salary of $720,160 which equates to the figure in the above table, using an exchange rate of $1=£0.62. Benefits incorporate the cost of expatriate benefits related to his international assignment outside the United States of America prior to taking up his appointment as President, The Americas, on 13 June 2011.

7 Tracy Robbins was appointed as a Director on 9 August 2011. Her base salary, performance payment and benefits have been pro-rated from her date of appointment.

8 Thomas Singer was appointed as a Director on 26 September 2011. His base salary and benefits have been pro-rated from his date of appointment. His benefits include receipt of a salary supplement in lieu of pension contributions of £41,979. He did not participate in the ABP during the year ended 31 December 2011.

9 Ralph Kugler retired as a Director on 30 June 2011. His emoluments have been pro-rated to his date of retirement.

10 Luke Mayhew was appointed as a Director on 1 July 2011. His emoluments have been pro-rated from his date of appointment.

11 Dale Morrison was appointed as a Director on 1 June 2011. His emoluments have been pro-rated from his date of appointment.

12 Sir Ian Prosser retired as a Director on 31 December 2003. However, he had an ongoing healthcare benefit of £1,205 during the year.

Directors' pension benefits

The following information relates to the pension arrangements provided for Messrs Cosslett and Solomons under the executive defined benefit section of the IC Plan and the unfunded ICETUS. Mr Cosslett ceased to be a Director on 1 July 2011.

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 or annual allowance under the post-April 2011 pensions regime, these benefits are limited in the IC Plan, but the balance is provided instead by ICETUS.

The defined benefit section of the IC Plan will close to future accruals by existing members with effect from 1 July 2013. ICETUS will also close to future accruals with effect from 1 July 2013.

James Abrahamson, who ceased to be a Director on 13 June 2011, has retirement benefits provided via the Six Continents Hotels, Inc. Deferred Compensation Plan (DCP). Kirk Kinsell has retirement benefits provided via the 401(k) Retirement Plan for employees of Six Continents Hotels, Inc. (401(k)) and the DCP. The 401(k) is a tax qualified plan providing benefits on a defined contribution basis, with the member and the relevant company both contributing. The DCP is a non-tax qualified plan, providing benefits on a defined contribution basis, with the member and the relevant company both contributing.

Tracy Robbins participates in the executive defined contribution section of the IC Plan. This section of the IC Plan is a funded, registered, defined contribution, occupational pension scheme. The main features applicable are:

- a normal pension age of 60;
- employee contributions of 7.5% of salary and company matching contributions of 30% of salary (subject to the Annual Allowance, with any excess over the Annual Allowance as a salary supplement in lieu of pension benefits);
- life assurance cover of four times pensionable salary; and
- lump sum contributions payable in the event of ill health.

The following table sets out the pension benefits of the Executive Directors in the UK defined benefit plans:

	Andrew Cosslett[1] £	Richard Solomons[2] £
Directors' contributions in the year[3]	20,400	26,000
Transfer value of accrued benefits at 1 January 2011	3,438,100	4,708,400
Transfer value of accrued benefits at 31 December 2011	**5,643,300**	**6,999,800**
Increase in transfer value over the year, less Directors' contributions	2,184,800	2,265,400
Absolute increase in accrued pension[4] per annum	18,500	65,100
Increase in accrued pension[5] per annum	10,300	52,900
Accrued pension at 31 December 2011[6] per annum	180,000	304,300
Age at 31 December 2011	**56**	**50**

1 When Andrew Cosslett ceased pensionable service with the Group on 30 June 2011, under the terms of the IC Plan his pension entitlement was £177,800 per annum before any cash commutation. In line with the Enhanced Early Retirement Facility (EERF) which is available to all members of the plan, this pension was not reduced on retirement. This facility enables members to retire without reduction in pension if they are within five years of normal retirement age. Although the EERF is non-contractual, its continuation formed part of the agreement with trustees on closure of the defined benefit section of the IC Plan, and the provisions of the facility state that while in place, it cannot reasonably be refused to retiring employees.

2 The increase in the transfer value of accrued benefits for Richard Solomons arises partly from the increase in salary resulting from his appointment as Chief Executive and partly from a change in the transfer value basis resulting from lower gilt yields.

3 Contributions paid in 2011 by the Directors under the terms of the plans. Contributions were 5% of full pensionable salary.

4 The absolute increase in accrued pension during 2011.

5 The increase in accrued pension during 2011, excluding any increase for inflation.

6 Accrued pension is that which would be paid annually on retirement at 60, based on service to 31 December 2011.

Employer contributions to the IC Plan made for Tracy Robbins since she became an Executive Director in August 2011 amounted to £10,032. In addition, Ms Robbins received a salary supplement in lieu of pension contributions of £33,175.

Thomas Singer received a salary supplement in lieu of pension contributions of £41,979.

REMUNERATION REPORT continued

Contributions made by and in respect of James Abrahamson and Kirk Kinsell to the defined contributions plans are[1]:

	James Abrahamson[2] £	Kirk Kinsell £
Directors' contributions to DCP in 2011	4,200	204,200
Directors' contributions to 401(k) in 2011	6,100	13,700
Company contribution to DCP in 2011	4,200	99,600
Company contribution to 401(k) in 2011	6,100	6,100
Age at 31 December 2011	**56**	**56**

1 Sterling values have been calculated using an exchange rate of $1=£0.62

2 James Abrahamson ceased to be a Director upon his resignation from IHG on 13 June 2011. The Company contribution to the DCP shown for Mr Abrahamson excludes Company contributions of £36,200 that were forfeited by Mr Abrahamson because he ceased to be a member of the DCP before these contributions vested five years after joining the DCP. Similarly, an amount of £14,000 of Company contributions to the DCP included in the 2010 Annual Report and Accounts has been forfeited.

Annual Bonus Plan deferred share awards

Directors' pre-tax share interests during the year were as set out below. No matching shares are provided on awards.

Director	Financial year on which performance is based for award[1]	ABP awards held at 1 Jan 2011	ABP awards during the year	Award date	Market price per share at award	ABP shares vested during the year	Vesting date	Market price per share at vesting	Value at vesting £	ABP awards held at 31 Dec 2011	Planned vesting date	Value based on share price of 1,157.0p at 31 Dec 2011 £
Andrew Cosslett[2]	2007	71,287		25.2.08	819.6p	71,287	25.2.11	1,350.8p	962,945			
	2008	104,652		23.2.09	472.6p	104,652	1.7.11	1,300.1p	1,360,581			
	2009	–										
	2010		51,005	21.2.11	1,417.0p	51,005	1.7.11	1,300.1p	663,116			
Total		**175,939**	**51,005**							**–**		**–**
Richard Solomons	2007	45,634		25.2.08	819.6p	45,634	25.2.11	1,350.8p	616,424			
	2008	66,549		23.2.09	472.6p					66,549	23.2.12	769,972
	2009	–										
	2010		32,295	21.2.11	1,417.0p					32,295	21.2.14	373,653
Total		**112,183**	**32,295**							**98,844**		**1,143,625**
James Abrahamson[3]	2009	–										
	2010		27,758	21.2.11	1,417.0p							
Total		**–**	**27,758**							**–**		**–**
Kirk Kinsell	2007	19,731		25.2.08	819.6p	19,731	25.2.11	1,350.8p	266,526			
	2008	41,427		23.2.09	472.6p					41,427	23.2.12	479,310
	2009	–										
	2010		27,375	21.2.11	1,417.0p					27,375	21.2.14	316,729
Total		**61,158**	**27,375**							**68,802**		**796,039**
Tracy Robbins	2007	24,306		25.2.08	819.6p	24,306	25.2.11	1,350.8p	328,325			
	2008	33,132		23.2.09	472.6p					33,132	23.2.12	383,337
	2009	–										
	2010		20,377	21.2.11	1,417.0p					20,377	21.2.14	235,762
Total		**57,438**	**20,377**							**53,509**		**619,099**
Thomas Singer	2010		–									
Total		**–**	**–**							**–**		**–**

1 For financial year 2007, the award was based on Group EBIT and net annual rooms additions measures and total shares held include matching shares. For financial year 2008, the award was based on Group EBIT, net annual rooms additions and individual performance measures. No matching shares were awarded. For financial year 2009, no bonus was paid. For financial year 2010, the award was based on Group EBIT and individual performance measures. No matching shares were awarded.

2 Andrew Cosslett retired as Chief Executive on 30 June 2011. Shares awarded to him in respect of financial years 2008 and 2010 were released early on 1 July 2011.

3 James Abrahamson resigned as a Director on 13 June 2011. Shares awarded to him in respect of financial year 2010 have lapsed.

All Executive Directors participated in the ABP during the year ended 31 December 2011 except for Thomas Singer, who did not participate having joined IHG in September 2011.

Special share awards

Details of special share awards that were granted and vested during the year ended 31 December 2011 are set out below:

Director	Awards held at 1 Jan 2011	Awards during the year	Award date	Market price per share at award	Shares vested during the year	Vesting date	Market price per share at vesting	Value at vesting £	Awards held at 31 Dec 2011	Planned vesting date	Value based on share price of 1,157.0p at 31 Dec 2011 £
James Abrahamson[1]	45,000		23.2.09	454.2p	45,000	16.2.11	1,373.4p	618,030			
	45,000		23.2.09	454.2p							
Total	**90,000**								–		–
Thomas Singer[2]		46,635	27.9.11	1,055.0p					46,635	26.9.12	539,567
Total	–	**46,635**							**46,635**		**539,567**

1 James Abrahamson received a special share award which was to vest over three years as part of his recruitment terms in 2009. Vesting each year was subject to continued service. His award of 45,000 shares due to vest on 15 February 2012 lapsed upon his resignation as a Director on 13 June 2011.

2 Thomas Singer received a special share award which vests one year from his appointment as a Director as part of his recruitment terms. Vesting is subject to continued service.

Long Term Incentive Plan awards

The awards made in respect of cycles ending on 31 December 2010, 2011, 2012 and 2013 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 2010, 73.8% of the award vested on 16 February 2011. In respect of the cycle ending on 31 December 2011, the Company out-performed the DJGH index in TSR by 7.9 percentage points and achieved 2.5% per annum adjusted EPS growth. Accordingly, 73.9% of the award will vest on 15 February 2012.

Director	End of year to which performance is based for award (31 Dec)[1]	Maximum LTIP awards held at 1 Jan 2011	Maximum LTIP shares awarded during the year	Award date	Market price per share at award	LTIP shares vested during the year[2]	Market price per share at vesting	Value at vesting £	Vesting date	Maximum LTIP Awards held at 31 Dec 2011	Maximum value based on share price of 1,157.0p at 31 Dec 2011 £
Andrew Cosslett[3]	2010	253,559		19.5.08	854.0p	187,126	1,373.4p	2,569,988	16.2.11		
	2011	272,201		3.4.09	604.0p				15.2.12	226,834	2,624,469
	2012	160,807		8.4.10	1,053.0p				13.2.13	80,403	930,263
	2013		137,438	8.4.11	1,269.0p				12.2.14	22,906	265,022
Total		**686,567**	**137,438**							**330,143**	**3,819,754**
Richard Solomons	2010	161,241		19.5.08	854.0p	118,995	1,373.4p	1,634,277	16.2.11		
	2011	173,096		3.4.09	604.0p				15.2.12	173,096	2,002,721
	2012	101,818		8.4.10	1,053.0p				13.2.13	101,818	1,178,034
	2013		87,234	8.4.11	1,269.0p				12.2.14	87,234	1,009,297
Total		**436,155**	**87,234**							**362,148**	**4,190,052**
James Abrahamson[4]	2010	164,973		23.2.09	457.0p	121,750	1,373.4p	1,672,115	16.2.11		
	2011	138,730		3.4.09	604.0p				15.2.12		
	2012	79,008		8.4.10	1,053.0p				13.2.13		
	2013		72,872	8.4.11	1,269.0p				12.2.14		
Total		**382,711**	**72,872**							–	–
Kirk Kinsell	2010	84,397		19.5.08	854.0p	62,284	1,373.4p	855,408	16.2.11		
	2011	132,256		3.4.09	604.0p				15.2.12	132,256	1,530,202
	2012	75,411		8.4.10	1,053.0p				13.2.13	75,411	872,505
	2013		72,872	8.4.11	1,269.0p				12.2.14	72,872	843,129
Total		**292,064**	**72,872**							**280,539**	**3,245,836**
Tracy Robbins	2010	86,311		19.5.08	854.0p	63,697	1,373.4p	874,815	16.2.11		
	2011	92,657		3.4.09	604.0p				15.2.12	92,657	1,072,041
	2012	55,873		8.4.10	1,053.0p				13.2.13	55,873	646,451
	2013		55,248	8.4.11	1,269.0p				12.2.14	55,248	639,219
Total		**234,841**	**55,248**							**203,778**	**2,357,711**
Thomas Singer[5]	2012		69,952	27.9.11	1,055.0p				13.2.13	69,952	809,345
	2013		78,696	27.9.11	1,055.0p				12.2.14	78,696	910,513
Total			**148,648**							**148,648**	**1,719,858**

1 All details of performance conditions in relation to the awards made in respect of cycles ending on 31 December 2011, 2012 and 2013 are provided on page 61.

2 This award was based on performance to 31 December 2010 where the performance measure related to both the Company's TSR relative to the index and the cumulative annual growth rate (CAGR) in adjusted EPS over the performance period. The Company out-performed the DJGH index in TSR by 8 percentage points and achieved 9.6% per annum adjusted EPS growth. Accordingly, 73.8% of the award vested on 16 February 2011.

3 Andrew Cosslett retired as Chief Executive on 30 June 2011. Shares awarded to him in respect of cycles ending on 31 December 2011, 2012 and 2013 were pro-rated to reflect his contractual service during the applicable performance periods.

4 James Abrahamson resigned as a Director on 13 June 2011. Shares awarded to him in respect of cycles ending on 31 December 2011, 2012 and 2013 have lapsed.

5 Thomas Singer's LTIP awards are pro-rated as explained on page 59.

REMUNERATION REPORT continued

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.

	Ordinary shares under option						
Director	Options held at 1 Jan 2011	Lapsed during the year	Exercised during the year	Share price on date of exercise	Options held at 31 Dec 2011	Weighted average option price at 31 Dec 2011	Option price
Kirk Kinsell	77,110[1]				77,110[1]		494.17p
	32,040[2]				32,040[2]		619.83p
Total	**109,150**				**109,150**	**531.06p**	
Richard Solomons	230,320[1]				230,320[1]		494.17p
	100,550[2]				100,550[2]		619.83p
Total	**330,870**				**330,870**	**532.36p**	

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

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

Option prices during the year ranged from 308.48p to 619.83p per IHG share. The closing market value share price on 31 December 2011 was 1,157p and the range during the year was 955p to 1,435p per share.

No Director exercised options during the year; therefore there is no disclosable gain by Directors in aggregate for the year ended 31 December 2011 (2010 nil).

This report was approved by the Board on 13 February 2012.

Luke Mayhew
Chairman of the Remuneration Committee

In this section we present the statements of Directors responsibilities, the independent auditor s report and the consolidated nancial statements of the Group for 2011.

GROUP FINANCIAL STATEMENTS

STATEMENTS OF DIRECTORS' RESPONSIBILITIES

In relation to the Group financial statements

The following statement, which should be read in conjunction with the independent auditor's report set out on the opposite page, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditor in relation to the Group financial statements.

The Directors are responsible for preparing the Annual Report, 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

Richard Solomons
Chief Executive
13 February 2012

Thomas Singer
Chief Financial Officer
13 February 2012

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 2011 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 auditor

As explained more fully in the Statements of Directors' responsibilities set out on page 70, 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 and express an opinion on 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 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 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 Group financial statements are prepared is consistent with the Group 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.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 45, in relation to going concern; and
- the part of the Corporate Governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matters

We have reported separately on the parent company financial statements of InterContinental Hotels Group PLC for the year ended 31 December 2011 and on the information in the Remuneration report that is described as having been audited.

Alison Duncan (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
13 February 2012

GROUP FINANCIAL STATEMENTS

Group income statement

				2011			2010
For the year ended 31 December 2011	Note	Before exceptional items $m	Exceptional items (note 5) $m	Total $m	Before exceptional items $m	Exceptional items (note 5) $m	Total $m
Revenue	2	1,768	–	1,768	1,628	–	1,628
Cost of sales		(771)	–	(771)	(753)	–	(753)
Administrative expenses		(350)	(31)	(381)	(331)	(13)	(344)
Other operating income and expenses		11	46	57	8	35	43
		658	15	673	552	22	574
Depreciation and amortisation	2	(99)	–	(99)	(108)	–	(108)
Impairment	2	–	20	20	–	(7)	(7)
Operating profit	2	559	35	594	444	15	459
Financial income	6	2	–	2	2	–	2
Financial expenses	6	(64)	–	(64)	(64)	–	(64)
Profit before tax		497	35	532	382	15	397
Tax	7	(120)	48	(72)	(98)	(8)	(106)
Profit for the year from continuing operations		377	83	460	284	7	291
Profit for the year from discontinued operations	11	–	–	–	–	2	2
Profit for the year attributable to equity holders of the parent		377	83	460	284	9	293
Earnings per ordinary share	9						
Continuing operations:							
Basic				159.2¢			101.0¢
Diluted				155.4¢			98.3¢
Adjusted		130.4¢			98.6¢		
Adjusted diluted		127.4¢			95.9¢		
Total operations:							
Basic				159.2¢			101.7¢
Diluted				155.4¢			99.0¢
Adjusted		130.4¢			98.6¢		
Adjusted diluted		127.4¢			95.9¢		

Notes on pages 78 to 116 form an integral part of these financial statements.

Group statement of comprehensive income

For the year ended 31 December 2011	2011 $m	2010 $m
Profit for the year	**460**	293
Other comprehensive income		
Available-for-sale financial assets:		
Gains on valuation	15	17
Losses reclassified to income on impairment	3	1
Cash flow hedges:		
Losses arising during the year	–	(4)
Reclassified to financial expenses	4	6
Defined benefit pension plans:		
Actuarial losses, net of related tax credit of $13m (2010 $7m)	(19)	(38)
Change in asset restriction on plans in surplus and liability in respect of funding commitments, net of related tax credit of $7m (2010 $10m)	(4)	(38)
Exchange differences on retranslation of foreign operations, including related tax charge of $3m (2010 $1m credit)	(21)	(4)
Tax related to pension contributions	2	7
Other comprehensive loss for the year	**(20)**	(53)
Total comprehensive income for the year	**440**	240
Attributable to:		
Equity holders of the parent	439	240
Non-controlling interest	1	–
	440	240

Notes on pages 78 to 116 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 share-holders' equity $m	Non-controlling interest $m	Total equity $m
At 1 January 2011	**155**	**10**	**(35)**	**(2,894)**	**49**	**211**	**2,788**	**284**	**7**	**291**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**460**	**460**	**–**	**460**
Other comprehensive income:										
Gains on valuation of available-for-sale financial assets	–	–	–	–	15	–	–	15	–	15
Losses reclassified to income on impairment of available-for-sale financial assets	–	–	–	–	3	–	–	3	–	3
Amounts reclassified to financial expenses on cash flow hedges	–	–	–	–	4	–	–	4	–	4
Actuarial losses on defined benefit pension plans	–	–	–	–	–	–	(19)	(19)	–	(19)
Change in asset restriction on pension plans in surplus and liability in respect of funding commitments	–	–	–	–	–	–	(4)	(4)	–	(4)
Exchange differences on retranslation of foreign operations	–	–	–	–	–	(22)	–	(22)	1	(21)
Tax related to pension contributions	–	–	–	–	–	–	2	2	–	2
Total other comprehensive loss	**–**	**–**	**–**	**–**	**22**	**(22)**	**(21)**	**(21)**	**1**	**(20)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**22**	**(22)**	**439**	**439**	**1**	**440**
Issue of ordinary shares	8	–	–	–	–	–	–	8	–	8
Purchase of own shares by employee share trusts	–	–	(75)	–	–	–	–	(75)	–	(75)
Release of own shares by employee share trusts	–	–	83	–	–	–	(80)	3	–	3
Equity-settled share-based cost	–	–	–	–	–	–	29	29	–	29
Tax related to share schemes	–	–	–	–	–	–	7	7	–	7
Equity dividends paid	–	–	–	–	–	–	(148)	(148)	–	(148)
Exchange adjustments	(1)	–	–	1	–	–	–	–	–	–
At 31 December 2011	**162**	**10**	**(27)**	**(2,893)**	**71**	**189**	**3,035**	**547**	**8**	**555**

All items above are shown net of tax.

Notes on pages 78 to 116 form an integral part of these financial statements.

Group statement of changes in equity continued

	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 share-holders' equity $m	Non-controlling interest $m	Total equity $m
At 1 January 2010	**142**	**11**	**(4)**	**(2,900)**	**29**	**215**	**2,656**	**149**	**7**	**156**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**293**	**293**	**–**	**293**
Other comprehensive income:										
Gains on valuation of available-for-sale financial assets	–	–	–	–	17	–	–	17	–	17
Losses reclassified to income on impairment of available-for-sale financial assets	–	–	–	–	1	–	–	1	–	1
Losses on cash flow hedges	–	–	–	–	(4)	–	–	(4)	–	(4)
Amounts reclassified to financial expenses on cash flow hedges	–	–	–	–	6	–	–	6	–	6
Actuarial losses on defined benefit pension plans	–	–	–	–	–	–	(38)	(38)	–	(38)
Change in asset restriction on pension plans in surplus and liability in respect of funding commitments	–	–	–	–	–	–	(38)	(38)	–	(38)
Exchange differences on retranslation of foreign operations	–	–	–	–	–	(4)	–	(4)	–	(4)
Tax related to pension contributions	–	–	–	–	–	–	7	7	–	7
Total other comprehensive loss	**–**	**–**	**–**	**–**	**20**	**(4)**	**(69)**	**(53)**	**–**	**(53)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**20**	**(4)**	**224**	**240**	**–**	**240**
Issue of ordinary shares	19	–	–	–	–	–	–	19	–	19
Purchase of own shares by employee share trusts	–	–	(53)	–	–	–	–	(53)	–	(53)
Release of own shares by employee share trusts	–	–	21	–	–	–	(26)	(5)	–	(5)
Equity-settled share-based cost	–	–	–	–	–	–	33	33	–	33
Tax related to share schemes	–	–	–	–	–	–	22	22	–	22
Equity dividends paid	–	–	–	–	–	–	(121)	(121)	–	(121)
Exchange adjustments	(6)	(1)	1	6	–	–	–	–	–	–
At 31 December 2010	**155**	**10**	**(35)**	**(2,894)**	**49**	**211**	**2,788**	**284**	**7**	**291**

All items above are shown net of tax.

Notes on pages 78 to 116 form an integral part of these financial statements.

Group financial statements continued

Group statement of financial position

31 December 2011	Note	2011 $m	2010 $m
ASSETS			
Property, plant and equipment	10	**1,362**	1,690
Goodwill	12	**92**	92
Intangible assets	13	**308**	266
Investment in associates and joint ventures	14	**87**	43
Retirement benefit assets	25	**21**	5
Other financial assets	15	**156**	135
Non-current tax receivable		**41**	–
Deferred tax assets	26	**106**	79
Total non-current assets		**2,173**	2,310
Inventories	16	**4**	4
Trade and other receivables	17	**369**	371
Current tax receivable		**20**	13
Derivative financial instruments	23	**3**	–
Cash and cash equivalents	18	**182**	78
Total current assets		**578**	466
Non-current assets classified as held for sale	11	**217**	–
Total assets	2	**2,968**	2,776
LIABILITIES			
Loans and other borrowings	22	**(21)**	(18)
Derivative financial instruments	23	**–**	(6)
Trade and other payables	19	**(707)**	(722)
Provisions	20	**(12)**	(8)
Current tax payable		**(120)**	(167)
Total current liabilities		**(860)**	(921)
Loans and other borrowings	22	**(670)**	(776)
Derivative financial instruments	23	**(39)**	(38)
Retirement benefit obligations	25	**(188)**	(200)
Trade and other payables	19	**(497)**	(464)
Provisions	20	**(2)**	(2)
Deferred tax liabilities	26	**(97)**	(84)
Total non-current liabilities		**(1,493)**	(1,564)
Liabilities classified as held for sale	11	**(60)**	–
Total liabilities	2	**(2,413)**	(2,485)
Net assets		**555**	291
EQUITY			
Equity share capital	28	**162**	155
Capital redemption reserve		**10**	10
Shares held by employee share trusts		**(27)**	(35)
Other reserves		**(2,893)**	(2,894)
Unrealised gains and losses reserve		**71**	49
Currency translation reserve		**189**	211
Retained earnings		**3,035**	2,788
IHG shareholders' equity		**547**	284
Non-controlling interest		**8**	7
Total equity		**555**	291

Signed on behalf of the Board

Thomas Singer
13 February 2012

Notes on pages 78 to 116 form an integral part of these financial statements.

Group statement of cash flows

For the year ended 31 December 2011	2011 $m	2010 $m
Profit for the year	**460**	293
Adjustments for:		
Net financial expenses	**62**	62
Income tax charge	**72**	106
Depreciation and amortisation	**99**	108
Impairment	**(20)**	7
Other exceptional operating items	**(15)**	(22)
Gain on disposal of discontinued operations	**–**	(2)
Equity-settled share-based cost, net of payments	**25**	26
Other items	**–**	1
Operating cash flow before movements in working capital	**683**	579
Increase in trade and other receivables	**(11)**	(35)
Net change in loyalty programme liability and System Fund surplus	**66**	10
(Decrease)/increase in other trade and other payables	**(20)**	131
Utilisation of provisions	**(19)**	(54)
Retirement benefit contributions, net of cost	**(44)**	(27)
Cash flows relating to exceptional operating items	**(32)**	(21)
Cash flow from operations	**623**	583
Interest paid	**(56)**	(59)
Interest received	**1**	2
Tax paid on operating activities	**(89)**	(64)
Net cash from operating activities	**479**	462
Cash flow from investing activities		
Purchases of property, plant and equipment	**(55)**	(62)
Purchases of intangible assets	**(48)**	(29)
Investment in other financial assets	**(50)**	(4)
Investment in associates and joint ventures	**(41)**	–
Disposal of assets, net of costs	**142**	107
Proceeds from other financial assets	**15**	28
Tax paid on disposals	**(1)**	(4)
Net cash from investing activities	**(38)**	36
Cash flow from financing activities		
Proceeds from the issue of share capital	**8**	19
Purchase of own shares by employee share trusts	**(75)**	(53)
Dividends paid to shareholders	**(148)**	(121)
Decrease in borrowings	**(119)**	(292)
Net cash from financing activities	**(334)**	(447)
Net movement in cash and cash equivalents in the year	**107**	51
Cash and cash equivalents at beginning of the year	**78**	40
Exchange rate effects	**(3)**	(13)
Cash and cash equivalents at end of the year	**182**	78

Notes on pages 78 to 116 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 2011 were authorised for issue in accordance with a resolution of the Directors on 13 February 2012. 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 2011, the Group has implemented the following new accounting standards, amendments and interpretations. None of these have had a material impact on the Group's financial performance or position during the year and there has been no requirement to restate prior year comparatives.

- IAS 1 (Amendment) 'Presentation of Financial Statements' clarifies that the analysis of each component of other comprehensive income may be presented either in the statement of changes in equity or in the notes to the financial statements. The Group provides this analysis in the statement of changes in equity.
- IAS 24 (Amendment) 'Related Party Transactions' clarifies the identification of related party relationships, particularly in relation to significant influence and joint control.
- IAS 27 (Amendment) 'Consolidated and Separate Financial Statements' removes the requirement to restate comparatives in a period when control or significant influence is lost and the remaining investment is accounted for under IAS 39.
- IFRS 3 (Amendment) 'Business Combinations' limits the scope of the measurement options available for non-controlling interest (NCI).
- IFRS 7 (Amendment) 'Financial Instruments – Disclosures' amends credit risk disclosures for financial assets and reduces the volume of disclosures around collateral held.
- IFRIC 13 (Amendment) 'Customer Loyalty Programmes' clarifies that when measuring the fair value of award credits, discounts and incentives offered to customers outside of the loyalty programme must be taken into account.
- IFRIC 14 (Amendment) 'Prepayments of a Minimum Funding Requirement' permits a pension asset to be recognised when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements.

Segmental information

As explained in note 2, an internal reorganisation during the year has resulted in a change to the Group's reportable segments. Comparatives have been restated to show the segmental information on a consistent basis.

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 is 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. 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.

Property, plant and equipment

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

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 re-assessed annually.

Property, plant and equipment are tested 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 their estimated recoverable amount, the assets or cash-generating units are written down to the 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. Impairment losses, and any subsequent reversals, are recognised in the income statement.

On adoption of IFRS, the Group retained previous revaluations of property, plant and equipment which are included in 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. With effect from 1 January 2010, transaction costs are expensed and therefore not included in the cost of acquisition. 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. Impairment losses cannot be subsequently reversed.

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 normally 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.

Borrowing costs

Borrowing costs attributable to the acquisition or construction of property, plant and equipment or in respect of software projects that necessarily take a substantial period of time to prepare for their 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. All borrowing costs relating to projects commencing before 1 January 2009 were expensed.

Associates and joint ventures

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.

A joint venture is a contractual arrangement whereby two or more venturers exercise joint control over the entity and unanimous agreement is required to make strategic financial and operating policy decisions.

Associates and jointly controlled entities are accounted for using the equity method unless the associate or jointly controlled entity 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 or joint venture, 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 or jointly controlled entity.

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.

Accounting policies continued

Financial assets are assessed for impairment at each period-end date. In the case of an equity investment classified as available-for-sale, a significant or prolonged decline in fair value below cost is evidence that the asset is impaired. 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. Subsequent impairment reversals relating to previously impaired equity instruments are recorded in equity.

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.

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.

Trade payables

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

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 are initially recognised and subsequently remeasured at fair value. The method of recognising the remeasurement depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Changes in the fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income and 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 related hedging instrument are reclassified to the income statement.

Changes in the fair value of derivatives designated as net investment hedges are recorded in other comprehensive income and the currency translation reserve to the extent that the hedges are effective. The cumulative gains and losses remain in equity until a foreign operation is sold, at which point they are reclassified to the income statement.

Changes in the fair value of derivatives which have either not been designated as hedging instruments or relate to the ineffective portion of hedges are recognised immediately in the income statement.

Documentation outlining the measurement and effectiveness of any hedging arrangements is maintained throughout the life of the hedge relationship.

Interest arising from currency derivatives and interest rate swaps is recorded in 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.

Self insurance

Liabilities in respect of self insured risks 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 a contract exceed the economic benefits expected to be received under it.

In respect of litigation, provision is made when management consider it probable that payment may occur even though the defence of the related claim may still be ongoing through the court process.

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.

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. A liability is also recorded for any such tax that would be payable in respect of funding commitments based on the accounting assumption that the related payments increase the asset.

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.

Curtailment gains arising from the cessation of future benefit accrual are recognised in the period in which the defined benefit plan is amended.

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 arises from the sale of goods and provision of services where these activities give rise to economic benefits received and receivable by the Group on its own account and 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 rooms revenue. Revenue is recognised when earned and realised or realisable under the terms of the contract.

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.

Accounting policies continued

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 or operations 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 Fund – in addition to management or franchise fees, hotels within the IHG system pay cash assessments and contributions which are collected by IHG for specific use within the System Fund (the Fund). The Fund also receives proceeds from the sale of Priority Club Rewards points. IHG exerts significant influence over the operation of the Fund, however the Fund is managed for the benefit of hotels in the system with the objective of driving revenues for the hotels. The Fund is used to pay for marketing, the Priority Club Rewards loyalty programme and the global reservation system. The Fund is 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 income is designated for specific purposes and does 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 income and expenses of the Fund are not included in the Group income statement.

The assets and liabilities relating to the Fund are included in the appropriate headings in the Group statement of financial position as 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 Fund.

The cash flows relating to the Fund are reported within 'cash flow from operations' in the Group statement of cash flows due to the close interrelationship between the Fund and the trading operations of the Group.

Further information on the Fund 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 Fund 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 issued but not effective

The following accounting standards, amendments and interpretations with an effective date after the date of these financial statements have not been adopted early by the Group and will be adopted in accordance with the effective date. Unless otherwise indicated, the Directors do not anticipate that the adoption of these standards, amendments and interpretations will have a material impact on the Group's reported income or net assets in the period of adoption.

- IFRS 7 (Amendment) 'Financial Instruments: Disclosures', which is effective from 1 July 2011, requires additional disclosures about financial assets that have been transferred but not derecognised and about continuing involvement in derecognised assets.
- IAS 12 (Amendment) 'Income Taxes', which is effective from 1 January 2012, introduces a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. The amendment also introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in IAS 16 will always be measured on a sale basis of the asset.
- IAS 1 (Amendment) 'Presentation of Financial Statements', which is effective from 1 July 2012, changes the grouping of items presented in other comprehensive income (OCI) so that items which may be reclassified to profit or loss in the future are presented separately from items that will never be reclassified.
- IAS 19 (Revised) 'Employee Benefits', which is effective from 1 January 2013, introduces numerous changes including the removal of the corridor mechanism and the concept of expected returns on plan assets. The Group currently recognises all actuarial gains and losses in OCI, therefore the removal of the corridor mechanism will have no impact on financial performance or position. The Group is currently assessing the impact of the other amendments although these are expected to result in a higher income statement charge. Comparatives will be restated on a consistent basis on adoption.
- IAS 28 (Amendment) 'Investments in Associates and Joint Ventures', which is effective from 1 January 2013, has been renamed as a consequence of the new IFRS 10 and IFRS 12 (see below) and describes the application of the equity method to investments in joint ventures in addition to associates.
- IFRS 10 'Consolidated Financial Statements', which is effective from 1 January 2013, introduces a single control model for all entities, including special purpose entities, which will require significant judgement to determine which entities are controlled and therefore consolidated in the Group financial statements. The Group is currently assessing the impact that this standard will have on the financial statements, if any.
- IFRS 11 'Joint Arrangements', which is effective from 1 January 2013, eliminates the option to account for jointly controlled entities (JCEs) using proportionate consolidation. The Group currently accounts for its JCEs using the equity method which is the requirement of IFRS 11.
- IFRS 12 'Disclosure of Involvement with Other Entities', which is effective from 1 January 2013, incorporates all of the disclosures required in respect of an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements are extensive and likely to result in new disclosures in the Group financial statements.
- IFRS 13 'Fair Value Measurement', which is effective from 1 January 2013, establishes a single source of guidance under IFRS for all fair value measurements.
- IFRS 9 'Financial Instruments: Classification and Measurement', which is effective from 1 January 2015, introduces new requirements for classifying and measuring financial assets and for measuring financial liabilities at fair value through profit or loss.

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 2013, other than amendments to IFRS 7 and IAS 12 which will be effective for the Group from 1 January 2012 and IFRS 9 which will be effective for the Group from 1 January 2015.

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=£0.62 (2010 $1=£0.65). In the case of the euro, the translation rate is $1=€0.72 (2010 $1=€0.76).

Assets and liabilities have been translated into US dollars at the rates of exchange on the last day of the year. In the case of sterling, the translation rate is $1=£0.65 (2010 $1=£0.64). In the case of the euro, the translation rate is $1=€0.77 (2010 $1=€0.75).

2. Segmental information

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

Americas;

Europe;

Asia, Middle East and Africa (AMEA); and

Greater China.

These, together with Central functions, comprise the Group's five reportable segments. No operating segments have been aggregated to form these reportable segments.

During the year, an internal reorganisation resulted in a change to the Group's reportable segments. Previously there were three geographical regions: Americas; Europe, Middle East and Africa (EMEA); and Asia Pacific (comprising the two operating segments that existed at that time, Greater China and Asia Australasia). The Middle East and Africa region has been combined with the former Asia Australasia operating segment to form a single new operating segment, AMEA. The reorganisation was undertaken to better align similar businesses and to allow greater focus on Europe as a stand-alone region. Comparatives have been restated to show segmental information on a consistent basis.

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.

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.

Year ended 31 December 2011	Americas $m	Europe $m	AMEA $m	Greater China $m	Central $m	Group $m
Revenue						
Franchised	502	86	19	2	–	609
Managed	124	118	151	77	–	470
Owned and leased	204	201	46	126	–	577
Central	–	–	–	–	112	112
Total revenue*	**830**	**405**	**216**	**205**	**112**	**1,768**

	Americas $m	Europe $m	AMEA $m	Greater China $m	Central $m	Group $m
Segmental result						
Franchised	431	65	12	3	–	511
Managed	52	26	87	43	–	208
Owned and leased	17	49	5	37	–	108
Regional and central	(49)	(36)	(20)	(16)	(147)	(268)
Reportable segments' operating profit	451	104	84	67	(147)	559
Exceptional operating items (note 5)	13	(39)	26	–	35	35
Operating profit*	**464**	**65**	**110**	**67**	**(112)**	**594**

	Group* $m
Reportable segments' operating profit	559
Exceptional operating items	35
Operating profit	**594**
Net finance costs	(62)
Profit before tax	532
Tax	(72)
Profit for the year	**460**

* Relates to continuing operations.

2. Segmental information continued

31 December 2011	Americas $m	Europe $m	AMEA $m	Greater China $m	Central $m	Group $m
Assets and liabilities						
Segment assets	908	816	276	388	228	2,616
Unallocated assets:						
Non-current tax receivable						41
Deferred tax assets						106
Current tax receivable						20
Derivative financial instruments						3
Cash and cash equivalents						182
Total assets						**2,968**
Segment liabilities	(487)	(247)	(53)	(54)	(625)	(1,466)
Unallocated liabilities:						
Current tax payable						(120)
Deferred tax liabilities						(97)
Loans and other borrowings						(691)
Derivative financial instruments						(39)
Total liabilities						**(2,413)**

Year ended 31 December 2011	Americas $m	Europe $m	AMEA $m	Greater China $m	Central $m	Group $m
Other segmental information						
Capital expenditure (see below)	84	15	14	8	72	193
Non-cash items:						
Depreciation and amortisation*	23	24	16	16	20	99
Impairment losses	–	2	3	–	–	5
Reversal of previously recorded impairment	(25)	–	–	–	–	(25)
Share-based payments cost	–	–	–	–	25	25
Share of profit of associates and joint ventures	–	–	(1)	–	–	(1)

* Included in the $99m of depreciation and amortisation is $30m relating to administrative expenses and $69m relating to cost of sales.

Reconciliation of capital expenditure	Americas $m	Europe $m	AMEA $m	Greater China $m	Central $m	Group $m
Capital expenditure per management reporting	84	15	14	8	72	193
Management contract acquired on disposal	2	–	–	–	–	2
Timing differences	2	–	–	2	–	4
Capital expenditure per the financial statements	88	15	14	10	72	199
Comprising additions to:						
Property, plant and equipment	6	12	2	10	26	56
Intangible assets	30	3	–	–	46	79
Investments in associates and joint ventures	31	–	11	–	–	42
Other financial assets	21	–	1	–	–	22
	88	15	14	10	72	199

Notes to the Group financial statements continued

2. Segmental information continued

Year ended 31 December 2010	Americas $m	Europe $m	AMEA $m	Greater China $m	Central $m	Group $m
Revenue						
Franchised	465	76	15	2	–	558
Managed	119	70	155	60	–	404
Owned and leased	223	180	43	116	–	562
Central	–	–	–	–	104	104
Total revenue*	**807**	**326**	**213**	**178**	**104**	**1,628**

	Americas $m	Europe $m	AMEA $m	Greater China $m	Central $m	Group $m
Segmental result						
Franchised	392	55	8	3	–	458
Managed	21	17	88	30	–	156
Owned and leased	13	38	4	33	–	88
Regional and central	(57)	(32)	(18)	(12)	(139)	(258)
Reportable segments' operating profit	369	78	82	54	(139)	444
Exceptional operating items (note 5)	14	(5)	6	–	–	15
Operating profit*	**383**	**73**	**88**	**54**	**(139)**	**459**

	Continuing $m	Discontinued $m	Group $m
Reportable segments' operating profit	444	–	444
Exceptional operating items	15	–	15
Operating profit	**459**	**–**	**459**
Net finance costs	(62)	–	(62)
Profit before tax	397	–	397
Tax	(106)	–	(106)
Profit after tax	291	–	291
Gain on disposal of discontinued operations, net of tax	–	2	2
Profit for the year	**291**	**2**	**293**

* Relates to continuing operations.

31 December 2010	Americas $m	Europe $m	AMEA $m	Greater China $m	Central $m	Group $m
Assets and liabilities						
Segment assets	891	826	310	385	194	2,606
Unallocated assets:						
Deferred tax assets						79
Current tax receivable						13
Cash and cash equivalents						78
Total assets						**2,776**
Segment liabilities	(452)	(280)	(58)	(38)	(568)	(1,396)
Unallocated liabilities:						
Current tax payable						(167)
Deferred tax liabilities						(84)
Loans and other borrowings						(794)
Derivative financial instruments						(44)
Total liabilities						**(2,485)**

2. Segmental information continued

Year ended 31 December 2010	Americas $m	Europe $m	AMEA $m	Greater China $m	Central $m	Group $m
Other segmental information						
Capital expenditure (see below)	37	8	6	6	40	97
Non-cash items:						
Depreciation and amortisation*	33	24	15	16	20	108
Impairment losses	7	–	–	–	–	7
Share-based payments cost	–	–	–	–	32	32

* Included in the $108m of depreciation and amortisation is $31m relating to administrative expenses and $77m relating to cost of sales.

Reconciliation of capital expenditure	Americas $m	Europe $m	AMEA $m	Greater China $m	Central $m	Group $m
Capital expenditure per management reporting	**37**	**8**	**6**	**6**	**40**	**97**
Management contract acquired on disposal	5	–	–	–	–	5
Timing differences	–	(1)	–	(4)	–	(5)
Capital expenditure per the financial statements	**42**	**7**	**6**	**2**	**40**	**97**
Comprising additions to:						
Property, plant and equipment	27	6	1	2	23	59
Intangible assets	11	1	5	–	17	34
Other financial assets	4	–	–	–	–	4
	42	**7**	**6**	**2**	**40**	**97**

Geographical information	Year ended 31 December 2011 $m	Year ended 31 December 2010 $m
Revenue		
United Kingdom	**139**	130
United States	**740**	706
People's Republic of China (including Hong Kong)	**210**	182
Rest of World	**679**	610
	1,768	1,628

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 2011 $m	31 December 2010 $m
Non-current assets		
United Kingdom	**361**	366
United States	**559**	726
France	**328**	344
People's Republic of China (including Hong Kong)	**331**	335
Rest of World	**270**	320
	1,849	2,091

For the purposes of the above table, non-current assets comprise property, plant and equipment, goodwill, intangible assets and investments in associates and joint ventures. 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

	2011 $m	2010 $m
Staff		
Costs:		
Wages and salaries	550	535
Social security costs	43	34
Pension and other post-retirement benefits:		
Defined benefit plans* (note 25)	8	9
Defined contribution plans	22	19
	623	597

* Before exceptional items.

	2011	2010
Average number of employees, including part-time employees:		
Americas	2,895	3,309
Europe	1,574	1,206
Asia, Middle East and Africa	1,195	1,142
Greater China	1,000	964
Central	1,292	1,237
	7,956	7,858

The costs of the above employees are borne by IHG. In addition, the Group employs 4,462 (2010 4,489) people who work in managed hotels or directly on behalf of the System Fund and whose costs of $307m (2010 $282m) are borne by those hotels or by the Fund.

	2011 $m	2010 $m
Directors' emoluments		
Base salaries, fees, performance payments and benefits	8.3	6.5

More detailed information on the emoluments, pensions, option holdings and shareholdings for each Director is shown in the Remuneration report on pages 54 to 68.

4. Auditor's remuneration paid to Ernst & Young LLP

	2011 $m	2010 $m
Group audit fees	1.9	1.9
Audit fees in respect of subsidiaries	1.5	1.6
Tax fees	0.7	2.1
Interim review fees	0.3	0.3
Other services pursuant to legislation	0.4	0.3
Other	1.4	1.7
	6.2	7.9

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	2011 $m	2010 $m
Continuing operations			
Exceptional operating items			
Administrative expenses:			
Litigation provision	a	(22)	–
Resolution of commercial dispute	b	(37)	–
Pension curtailment gain	c	28	–
Holiday Inn brand relaunch	d	–	(9)
Reorganisation and related costs	e	–	(4)
		(31)	(13)
Other operating income and expenses:			
Gain on disposal of hotels* (note 11)		37	27
VAT refund	f	9	–
Gain on sale of other financial assets	g	–	8
		46	35
Impairment:			
Impairment charges:			
Property, plant and equipment (note 10)		(2)	(6)
Other financial assets (note 15)		(3)	(1)
Reversals of previously recorded impairment:			
Property, plant and equipment (note 10)		23	–
Associates (note 14)		2	–
		20	(7)
		35	15
Tax			
Tax on exceptional operating items		5	(8)
Exceptional tax credit	h	43	–
		48	(8)
Discontinued operations			
Gain on disposal of assets (note 11)			
Tax credit	i	–	2

* Relates to hotels classified as continuing operations.

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

a Estimate of the amount potentially payable in respect of a prior year claim following an unfavourable court judgement in the Americas on 23 February 2011. Any final amount will not be known until the court process is complete.

b Relates to the settlement of a prior period commercial dispute in the Europe region.

c Arises from the closure of the UK defined benefit pension scheme to future accrual with effect from 1 July 2013.

d Related to costs incurred in support of the worldwide relaunch of the Holiday Inn brand family that was announced on 24 October 2007 and substantially completed in 2010.

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

f Arises in the UK and relates to periods prior to 1996.

g Related to the gain on sale of an investment in the AMEA region.

h Represents the release of provisions of $13m (2010 $7m) which are exceptional by reason of their nature relating to tax matters which have been settled or in respect of which the relevant statutory limitation period has expired, together with, in 2011, a $30m revision to the estimated tax impacts relating to an internal reorganisation carried out in 2010, including the recognition of additional deferred tax assets. In 2010 the tax charge of $7m relating to this reorganisation comprised the recognition of deferred tax assets of $24m for capital losses and other deductible amounts, offset by tax charges of $31m.

i Related to tax refunded in respect of a prior year hotel sale.

Notes to the Group financial statements continued

6. Finance costs

	2011 $m	2010 $m
Financial income		
Interest income on deposits	1	2
Unwinding of discount on other financial assets	1	–
	2	2
Financial expenses		
Interest expense on borrowings	42	40
Interest rate swaps fair value transferred from equity	4	6
Finance charge payable under finance leases	18	18
	64	64

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 $1m (2010 $2m) 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	2011 $m	2010 $m
Income tax			
UK corporation tax at 26.5% (2010 28.0%):			
Current period		30	21
Adjustments in respect of prior periods		(25)	(29)
		5	(8)
Foreign tax:	a		
Current period		98	122
Benefit of tax reliefs on which no deferred tax previously recognised		(16)	(13)
Adjustments in respect of prior periods	b	(65)	(23)
		17	86
Total current tax		22	78
Deferred tax:			
Origination and reversal of temporary differences		73	56
Changes in tax rates		(2)	(2)
Adjustments to estimated recoverable deferred tax assets		(12)	(36)
Adjustments in respect of prior periods		(9)	8
Total deferred tax		50	26
Total income tax charge for the year		72	104
Further analysed as tax relating to:			
Profit before exceptional items		120	98
Exceptional items (note 5):			
Exceptional operating items		(5)	8
Exceptional tax credit	c	(43)	–
Gain on disposal of discontinued operations		–	(2)
		72	104
The total tax charge can be further analysed as relating to:			
Continuing operations		72	106
Discontinued operations – gain on disposal of assets		–	(2)
		72	104

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 $39m (2010 $7m) 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 of $13m (2010 $7m) which are exceptional by reason of their nature relating to tax matters which have been settled or in respect of which the relevant statutory limitation period has expired, together with, in 2011, a $30m revision to the estimated tax impacts relating to an internal reorganisation carried out in 2010, including the recognition of additional deferred tax assets. In 2010 the tax charge of $7m relating to this reorganisation comprised the recognition of deferred tax assets of $24m for capital losses and other deductible amounts, offset by tax charges of $31m.

7. Tax continued

		Total[a]		Before exceptional items[b]
	2011 %	2010 %	2011 %	2010 %
Reconciliation of tax charge, including gain on disposal of assets				
UK corporation tax at standard rate	**26.5**	28.0	**26.5**	28.0
Non-deductible expenditure and non-taxable income	**1.9**	4.1	**2.6**	4.2
Net effect of different rates of tax in overseas businesses	**8.9**	9.5	**9.8**	9.3
Effect of changes in tax rates	**(0.5)**	(0.4)	**(0.4)**	(0.7)
Benefit of tax reliefs on which no deferred tax previously recognised	**(3.0)**	(3.5)	**(3.2)**	(3.6)
Effect of adjustments to estimated recoverable deferred tax assets	**(2.3)**	(9.1)	**(0.3)**	(2.3)
Adjustment to tax charge in respect of prior periods	**(18.9)**	(11.2)	**(12.1)**	(9.1)
Other	**1.0**	–	**1.3**	–
Exceptional items and gain on disposal of assets	**(0.1)**	8.7	**–**	–
	13.5	26.1	**24.2**	25.8

a Calculated in relation to total profits including exceptional items.

b Calculated in relation to profits excluding exceptional items.

Tax paid

Total net tax paid during the year of $90m (2010 $68m) comprises $89m (2010 $64m) paid in respect of operating activities and $1m (2010 $4m) paid in respect of investing activities.

Tax paid represents an effective rate of 17% (2010 17%) on total profits and is lower than the effective income statement tax rate of 24% primarily due to the impact of deferred taxes (including the realisation of assets such as tax losses), the receipt of refunds in respect of prior years and provisions for tax for which no payment of tax has currently been made.

Tax risks, policies and governance

Information concerning the Group's tax governance can be found in the Taxation section of the Business Review on page 26.

8. Dividends paid and proposed

	2011 cents per share	2010 cents per share	2011 $m	2010 $m
Paid during the year:				
Final (declared for previous year)	**35.2**	29.2	**102**	84
Interim	**16.0**	12.8	**46**	37
	51.2	42.0	**148**	121
Proposed (not recognised as a liability at 31 December):				
Final	**39.0**	35.2	**113**	101

The final dividend of 24.7p (39.0¢ converted at the closing exchange rate on 10 February 2012) is proposed for approval at the Annual General Meeting (AGM) on 25 May 2012 and is payable on the shares in issue at 23 March 2012.

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.

	2011 Continuing operations	2011 Total	2010 Continuing operations	2010 Total
Basic earnings per ordinary share				
Profit available for equity holders ($m)	460	460	291	293
Basic weighted average number of ordinary shares (millions)	289	289	288	288
Basic earnings per ordinary share (cents)	159.2	159.2	101.0	101.7
Diluted earnings per ordinary share				
Profit available for equity holders ($m)	460	460	291	293
Diluted weighted average number of ordinary shares (millions)	296	296	296	296
Diluted earnings per ordinary share (cents)	155.4	155.4	98.3	99.0

	2011 millions	2010 millions
Diluted weighted average number of ordinary shares is calculated as:		
Basic weighted average number of ordinary shares	289	288
Dilutive potential ordinary shares – employee share options	7	8
	296	296

	2011 Continuing operations	2011 Total	2010 Continuing operations	2010 Total
Adjusted earnings per ordinary share				
Profit available for equity holders ($m)	460	460	291	293
Adjusting items (note 5):				
Exceptional operating items ($m)	(35)	(35)	(15)	(15)
Tax on exceptional operating items ($m)	(5)	(5)	8	8
Exceptional tax credit ($m)	(43)	(43)	–	–
Gain on disposal of discontinued operations ($m)	–	–	–	(2)
Adjusted earnings ($m)	377	377	284	284
Basic weighted average number of ordinary shares (millions)	289	289	288	288
Adjusted earnings per ordinary share (cents)	130.4	130.4	98.6	98.6
Adjusted earnings ($m)	377	377	284	284
Diluted weighted average number of ordinary shares (millions)	296	296	296	296
Adjusted diluted earnings per ordinary share (cents)	127.4	127.4	95.9	95.9

10. Property, plant and equipment

	Land and buildings $m	Fixtures, fittings and equipment $m	Total $m
Cost			
At 1 January 2010	1,622	1,046	2,668
Additions	24	35	59
Net transfers to non-current assets classified as held for sale	(57)	(55)	(112)
Disposals	(11)	(20)	(31)
Exchange and other adjustments	(30)	(9)	(39)
At 31 December 2010	1,548	997	2,545
Additions	2	54	56
Net transfers to non-current assets classified as held for sale	(258)	(98)	(356)
Disposals	(44)	(25)	(69)
Exchange and other adjustments	(11)	(11)	(22)
At 31 December 2011	**1,237**	**917**	**2,154**
Depreciation and impairment			
At 1 January 2010	(212)	(620)	(832)
Provided	(11)	(64)	(75)
Net transfers to non-current assets classified as held for sale	1	29	30
Impairment charge (see below)	–	(6)	(6)
Disposals	8	18	26
Exchange and other adjustments	1	1	2
At 31 December 2010	(213)	(642)	(855)
Provided	(10)	(56)	(66)
Net transfers to non-current assets classified as held for sale	19	71	90
Impairment charge (see below)	(2)	–	(2)
Impairment reversals (see below)	23	–	23
Disposals	9	8	17
Exchange and other adjustments	–	1	1
At 31 December 2011	**(174)**	**(618)**	**(792)**
Net book value			
At 31 December 2011	**1,063**	**299**	**1,362**
At 31 December 2010	1,335	355	1,690
At 1 January 2010	1,410	426	1,836

The impairment charge in 2011 arose in respect of one hotel in Europe following a re-assessment of its recoverable amount, based on fair value less costs to sell.

The impairment charge in 2010 arose in respect of one hotel in the Americas following a re-assessment of its recoverable amount, based on value in use. Estimated future cash flows were discounted at a pre-tax rate of 11.8%.

Of the impairment reversal, $11m arose in March 2011 on the classification of a North American hotel as 'held for sale'. The amount of the reversal was based on the expected net sales proceeds which were subsequently realised on the disposal of the hotel (see note 11). A further $12m arose in respect of another North American hotel following a re-assessment of its recoverable amount, based on value in use. Estimated future cash flows were discounted at a pre-tax rate of 12.6%.

All impairment charges and reversals are included within impairment on the face of the Group income statement.

The carrying value of property, plant and equipment held under finance leases at 31 December 2011 was $190m (2010 $183m).

No borrowing costs were capitalised during the year (2010 $nil).

Charges over one hotel totalling $85m exist as security provided to the Group's pension plans.

Notes to the Group financial statements continued

11. Assets sold, held for sale and discontinued operations

During the year ended 31 December 2011, the Group sold four hotels, three in the Americas region and one in the AMEA region. The gain on disposal mainly relates to the sale of the Holiday Inn Burswood in Australia. The other significant disposal was the Hotel Indigo San Diego which resulted in an impairment reversal (see note 10) in March 2011 on classification as 'held for sale'.

During the year ended 31 December 2010, two hotels in the Americas were sold including the InterContinental Buckhead, Atlanta on 1 July 2010 for a profit of $27m.

	2011 $m	2010 $m
Consideration		
Current year disposals:		
Cash consideration, net of costs paid	142	109
Management contract value	2	5
	144	114
Net assets disposed of	(107)	(87)
Prior year disposals:		
Tax	–	2
Gain on disposal of assets	37	29
Analysed as:		
Gain on disposal of hotels from continuing operations (note 5)	37	27
Gain on disposal of assets from discontinued operations (note 5)	–	2
	37	29
Net cash inflow		
Current year disposals:		
Cash consideration, net of costs paid	142	109
Tax	(1)	(6)
Prior year disposals:		
Costs paid	–	(2)
Tax	–	2
	141	103

Assets held for sale

One hotel, the InterContinental New York Barclay, met the 'held for sale' criteria of IFRS 5 at 31 December 2011.

	2011 $m	2010 $m
Assets and liabilities held for sale		
Non-current assets classified as held for sale:		
Property, plant and equipment	217	–
Liabilities classified as held for sale:		
Deferred tax (note 26)	60	–

Discontinued operations

The results of discontinued operations comprise gains arising from prior year hotel disposals of $nil (2010 $2m) and do not impact on segmental results.

	2011 cents	2010 cents
Earnings per ordinary share from discontinued operations		
Basic	–	0.7
Diluted	–	0.7

Cash flows attributable to discontinued operations were $nil (2010 $2m).

12. Goodwill

	2011 $m	2010 $m
Cost		
At 1 January	**233**	223
Exchange and other adjustments	**–**	10
At 31 December	**233**	233
Impairment		
At 1 January and 31 December	**(141)**	(141)
Net book value		
At 31 December	**92**	92
At 1 January	**92**	82

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

Impairment charges are included within impairment on the face of the Group income statement and all cumulative impairment losses relate to the Americas managed cash-generating unit (CGU) (see below).

Goodwill has been allocated to CGUs for impairment testing as follows:

	Cost		Net book value	
	2011 $m	2010 $m	2011 $m	2010 $m
Asia Australasia franchised and managed operations	**92**	92	**92**	92
Americas managed operations	**141**	141	**–**	–
	233	233	**92**	92

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 the 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.

Asia Australasia goodwill

At 31 December 2011, the recoverable amount of the CGU has been assessed based on the approved budget for 2012 and strategic plans covering a five-year period, a perpetual growth rate of 3.5% (2010 3.5%) and a discount rate of 13.9% (2010 14.4%).

Impairment was not required at either 31 December 2011 or 31 December 2010 and management believe that the carrying value of the CGU would only exceed its recoverable amount in the event of highly unlikely changes in the key assumptions.

Americas goodwill

Goodwill relating to the Americas managed operations was impaired in full in 2009. As goodwill impairment cannot be reversed, there is no sensitivity around any assumptions that could lead to further impairment adjustments.

Notes to the Group financial statements continued

13. Intangible assets

	Software $m	Management contracts $m	Other intangibles $m	Total $m
Cost				
At 1 January 2010	185	231	98	514
Additions	18	5	11	34
Disposals	(2)	–	(1)	(3)
Exchange and other adjustments	2	(5)	1	(2)
At 31 December 2010	203	231	109	543
Additions	46	2	31	79
Disposals	–	–	(2)	(2)
Exchange and other adjustments	3	(2)	–	1
At 31 December 2011	**252**	**231**	**138**	**621**
Amortisation and impairment				
At 1 January 2010	(100)	(96)	(44)	(240)
Provided	(15)	(10)	(8)	(33)
Disposals	2	–	1	3
Exchange and other adjustments	(7)	–	–	(7)
At 31 December 2010	(120)	(106)	(51)	(277)
Provided	(13)	(10)	(10)	(33)
Disposals	–	–	2	2
Exchange and other adjustments	(5)	–	–	(5)
At 31 December 2011	**(138)**	**(116)**	**(59)**	**(313)**
Net book value				
At 31 December 2011	**114**	**115**	**79**	**308**
At 31 December 2010	83	125	58	266
At 1 January 2010	85	135	54	274

Borrowing costs of $0.4m (2010 $nil) were capitalised during the year in respect of software projects.

The weighted average remaining amortisation period for management contracts is 20 years (2010 21 years).

14. Investment in associates and joint ventures

	Associates $m	Joint ventures $m	Total $m
Cost			
At 1 January 2010	50	–	50
Dividends	(1)	–	(1)
Exchange and other adjustments	(1)	–	(1)
At 31 December 2010	48	–	48
Additions	11	31	42
Share of profit/(loss)	2	(1)	1
Dividends	(1)	–	(1)
At 31 December 2011	**60**	**30**	**90**
Impairment			
At 1 January 2010 and 31 December 2010	(5)	–	(5)
Impairment reversal (see below)	2	–	2
At 31 December 2011	**(3)**	**–**	**(3)**
Net book value			
At 31 December 2011	**57**	**30**	**87**
At 31 December 2010	43	–	43
At 1 January 2010	45	–	45

The impairment reversal arose in the Americas region.

14. Investment in associates and joint ventures continued

The following table summarises the financial information of the Group's associates and joint ventures:

	Associates		Joint ventures		Total	
	2011 $m	2010 $m	2011 $m	2010 $m	2011 $m	2010 $m
Share of statement of financial position						
Current assets	9	5	3	–	12	5
Non-current assets	70	62	27	–	97	62
Current liabilities	(7)	(9)	–	–	(7)	(9)
Non-current liabilities	(15)	(15)	–	–	(15)	(15)
Net assets	57	43	30	–	87	43
Share of revenue and profit						
Revenue	28	26	–	–	28	26
Profit/(loss)	2	–	(1)	–	1	–
Related party transactions						
Revenue from related parties	5	4	–	–	5	4
Amounts owed by related parties	1	1	–	–	1	1
Loans from related parties	(2)	–	–	–	(2)	–

At 31 December 2011, the Group held investments in six associates (2010 five) and two jointly controlled entities (2010 nil). The most significant investments are a 30% associate holding in President Hotel and Tower Co Ltd, the owner of the InterContinental Hotel Bangkok and the Holiday Inn Bangkok, and a 49% holding in BCRE IHG 180 Orchard Holdings LLC, a joint venture established to develop and build a multi-use property in Manhattan, New York, including a Hotel Indigo.

15. Other financial assets

	2011 $m	2010 $m
Non-current		
Equity securities available-for-sale	112	87
Other	44	48
	156	135

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 2011, $15m (2010 $3m) were listed securities and $97m (2010 $84m) unlisted; $61m (2010 $41m) were denominated in US dollars, $23m (2010 $17m) in Hong Kong dollars and $28m (2010 $29m) in other currencies. Unlisted equity shares are mainly investments in entities that own hotels which the Group manages. The fair value of unlisted equity shares has been estimated using valuation guidelines issued by the British Venture Capital Association and is based on assumptions regarding expected future earnings. Listed equity share valuation is based on observable market prices. Dividend income from available-for-sale equity securities of $11m (2010 $8m) is reported as other operating income and expenses in the Group income statement.

Other financial assets consist of trade deposits and restricted cash. These amounts have been designated as 'loans and receivables' and are held at amortised cost. A deposit of $37m was made during the year to a hotel owner in connection with the renegotiation of a management contract. The deposit is non-interest-bearing and repayable at the end of the management contract, and is therefore held at its discounted value of $10m; the discount will unwind to the income statement within financial income over the period to repayment. Restricted cash of $27m (2010 $42m) 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:

	2011 $m	2010 $m
At 1 January	(26)	(25)
Provided – exceptional items	(3)	(1)
Reclassification	3	–
Amounts written off	1	–
At 31 December	(25)	(26)

The amounts provided as exceptional items relate to available-for-sale equity investments and have arisen as a result of significant and prolonged declines in their fair value below cost.

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.

Notes to the Group financial statements continued

16. Inventories

	2011 $m	2010 $m
Finished goods	2	2
Consumable stores	2	2
	4	4

17. Trade and other receivables

	2011 $m	2010 $m
Trade receivables	299	292
Other receivables	28	32
Prepayments	42	47
	369	371

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:

	2011 $m	2010 $m
Americas	170	163
Europe	69	70
Asia, Middle East and Africa	61	59
Greater China	27	32
	327	324

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

			2011			2010
	Gross $m	Provision $m	Net $m	Gross $m	Provision $m	Net $m
Not past due	201	(1)	200	197	(3)	194
Past due 1 to 30 days	73	(2)	71	75	(4)	71
Past due 31 to 180 days	59	(3)	56	66	(9)	57
Past due more than 180 days	40	(40)	–	44	(42)	2
	373	(46)	327	382	(58)	324

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

	2011 $m	2010 $m
At 1 January	(58)	(85)
Provided	(15)	(27)
Amounts written back	7	7
Amounts written off	20	47
At 31 December	(46)	(58)

18. Cash and cash equivalents

	2011 $m	2010 $m
Cash at bank and in hand	51	38
Short-term deposits	131	40
	182	78

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

19. Trade and other payables

	2011 $m	2010 $m
Current		
Trade payables	**126**	113
Other tax and social security payable	**35**	35
Other payables	**262**	226
Accruals	**284**	348
	707	722
Non-current		
Other payables	**497**	464

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

Other payables include $578m (2010 $531m) relating to the future redemption liability of the Group's loyalty programme, of which $105m (2010 $92m) is classified as current and $473m (2010 $439m) as non-current.

20. Provisions

	Onerous management contracts $m	Litigation $m	Total $m
At 1 January 2010	65	–	65
Provided	3	–	3
Utilised	(58)	–	(58)
At 31 December 2010	10	–	10
Provided	1	22	23
Utilised	(8)	(11)	(19)
At 31 December 2011	**3**	**11**	**14**

	2011 $m	2010 $m
Analysed as:		
Current	**12**	8
Non-current	**2**	2
	14	10

The onerous management contracts provision relates to the unavoidable net cash outflows that are expected to be incurred under performance guarantees associated with certain management contracts. The non-current portion of the provision is expected to be utilised over the period to 2020.

The litigation provision has been charged in the income statement as an exceptional item (see note 5) and relates to an action brought against the Group in the Americas region. The balance of the provision is subject to ongoing litigation which is expected to be concluded in 2012.

21. Financial risk management

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 may 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.

From time to time, 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

21. Financial risk management 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 $3.3m (2010 $3.5m) and decrease net assets by an estimated $10.4m (2010 $5.6m). Similarly, a five cent fall in the euro:US dollar rate would reduce the Group's profit before tax by an estimated $1.9m (2010 $1.4m) and decrease net assets by an estimated $10.3m (2010 $8.2m).

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 usually achieved through the use of interest rate swaps. Due to relatively low interest rates and the level of the Group's debt, 100% of borrowings were fixed rate debt or had been swapped into fixed rate borrowings at 31 December 2011.

Based on the year-end net debt position and given the underlying maturity profile of investments, borrowings and hedging instruments at that date, neither a one percentage point rise in US dollar, euro nor sterling interest rates would impact the annual net interest charge in the current or prior year.

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 $1,049m of undrawn committed facilities. Medium and long-term borrowing requirements are met through the $1.07bn Syndicated Facility which expires in November 2016 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 for this purpose 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 cash of $182m which is held in short-term deposits and cash funds which allow daily withdrawals of cash. Most of the Group's 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 totalling $1,085m at 31 December 2011 (2010 $1,027m). The structure is managed to maintain an investment grade credit rating, to provide ongoing returns to shareholders and to service debt obligations, whilst maintaining maximum operational flexibility. A key characteristic of IHG's managed and franchised business model is that it is highly cash generative, with a high return on capital employed. Surplus cash is either reinvested in the business, used to repay debt or returned to shareholders. The Group maintains a conservative level of debt which is monitored on the basis of a cash flow leverage ratio, being 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, although 100% of interest flows were fixed at 31 December 2011. At 31 December 2011, the Group held interest rate swaps (swapping floating for fixed) with notional principals of $100m (2010 $100m and EUR75m). The Group designates its interest rate swaps as cash flow hedges (see note 23 for further details).

Foreign currency risk

The Group is exposed to foreign currency risk on income streams denominated in foreign currencies. From time to time, 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. There were no such contracts in place at either 31 December 2011 or 31 December 2010.

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.

At 31 December 2011, the Group held currency swaps with a principal of $415m (2010 $415m) and short dated foreign exchange swaps with principals of EUR75m (2010 EUR75m and HKD70m) (see note 23 for further details). The maximum amount of foreign exchange derivatives held during the year as net investment hedges and measured at calendar quarter ends were currency swaps with a principal of $415m (2010 $415m) and short dated foreign exchange swaps with principals of HKDnil (2010 HKD280m) and EUR100m (2010 EUR75m).

Hedge effectiveness is measured at calendar quarter ends. No ineffectiveness arose in respect of either the Group's cash flow or net investment hedges during the current or prior year.

21. Financial risk management continued

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 2011					
Non-derivative financial liabilities:					
Secured bank loans	5	–	–	–	5
£250m 6% bonds	23	23	456	–	502
Finance lease obligations	16	16	48	3,332	3,412
Unsecured bank loans	100	–	–	–	100
Trade and other payables	707	123	135	324	1,289
Provisions	12	1	1	–	14
Derivative financial liabilities:					
Interest rate swaps	1	–	–	–	1
Forward foreign exchange contracts	(3)	–	–	–	(3)
Currency swaps – outflows	26	26	492	–	544
– inflows	(23)	(23)	(456)	–	(502)

	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 2010					
Non-derivative financial liabilities:					
Secur					

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21. Financial risk management continued

Fair values

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

	Note	2011 Carrying value $m	2011 Fair value $m	2010 Carrying value $m	2010 Fair value $m
Financial assets					
Equity securities available-for-sale*	15	112	112	87	87
Derivatives*	23	3	3	–	–
Loans and receivables:					
Cash and cash equivalents	18	182	182	78	78
Other financial assets	15	44	44	48	48
Trade and other receivables, excluding prepayments	17	327	327	324	324
Financial liabilities					
£250m 6% bonds	22	(384)	(411)	(385)	(404)
Finance lease obligations	22	(209)	(268)	(206)	(217)
Other borrowings	22	(98)	(98)	(203)	(203)
Trade and other payables	19	(1,204)	(1,204)	(1,186)	(1,186)
Derivatives*	23	(39)	(39)	(44)	(44)
Provisions	20	(14)	(14)	(10)	(10)

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

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 notes 15 and 23. 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 finance lease obligations 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.

	2011 Level 1 $m	2011 Level 2 $m	2011 Level 3 $m	2011 Total $m	2010 Level 1 $m	2010 Level 2 $m	2010 Level 3 $m	2010 Total $m
Assets								
Equity securities available-for-sale	15	–	97	112	3	–	84	87
Derivatives	–	3	–	3	–	–	–	–
Liabilities								
Derivatives	–	(39)	–	(39)	–	(44)	–	(44)

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.

21. Financial risk management continued

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

	2011 $m	2010 $m
At 1 January	**84**	69
Additions	**1**	4
Repaid	**(3)**	(5)
Valuation gains recognised in other comprehensive income	**16**	16
Impairment*	**(1)**	–
At 31 December	**97**	84

* The impairment charge recognised in the income statement (see note 5) also includes $2m (2010 $1m) 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 (2010 $4m) in the fair value of the investments and a 10% decrease in the average P/E ratio would result in a $5m decrease (2010 $4m) in the fair value of the investments.

22. Loans and other borrowings

	2011			2010		
	Current $m	Non-current $m	Total $m	Current $m	Non-current $m	Total $m
Secured bank loans	**5**	**–**	**5**	1	4	5
Finance lease obligations	**16**	**193**	**209**	16	190	206
£250m 6% bonds	**–**	**384**	**384**	–	385	385
Unsecured bank loans	**–**	**93**	**93**	1	197	198
Total borrowings	**21**	**670**	**691**	18	776	794
Denominated in the following currencies:						
Sterling	**–**	**384**	**384**	–	385	385
US dollars	**16**	**286**	**302**	16	287	303
Euro	**–**	**–**	**–**	–	100	100
Other	**5**	**–**	**5**	2	4	6
	21	**670**	**691**	18	776	794

Secured bank loans

This New Zealand dollar mortgage (interest payable at 5.3%) is secured on the hotel property to which it relates.

Non-current amounts include $nil (2010 $4m) repayable by instalments.

Finance lease obligations

Finance lease obligations, which relate to the 99-year lease (of which 94 years remain) on the InterContinental Boston, are payable as follows:

	2011		2010	
	Minimum lease payments $m	Present value of payments $m	Minimum lease payments $m	Present value of payments $m
Less than one year	**16**	**16**	16	16
Between one and five years	**64**	**48**	64	48
More than five years	**3,332**	**145**	3,348	142
	3,412	**209**	3,428	206
Less: amount representing finance charges	**(3,203)**	**–**	(3,222)	–
	209	**209**	206	206

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.

Notes to the Group financial statements continued

22. Loans and other borrowings continued

£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 (see note 23 for further details).

Unsecured bank loans

Unsecured bank loans are borrowings under the Group's Syndicated Facility and its short-term bilateral loan and overdraft facilities. 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. Borrowings under the facilities are classified as non-current when the facilities have more than 12 months to expiry. The Syndicated Facility comprises a $1.07bn five-year revolving credit facility that matures in November 2016. This replaced a $1.6bn five-year revolving facility (maturing in May 2013) in November 2011 following a successful refinancing of the facility.

Facilities provided by banks

			2011			2010
	Utilised $m	Unutilised $m	Total $m	Utilised $m	Unutilised $m	Total $m
Committed	105	970	1,075	205	1,400	1,605
Uncommitted	–	79	79	1	52	53
	105	1,049	1,154	206	1,452	1,658

	2011 $m	2010 $m
Unutilised facilities expire:		
Within one year	79	52
After two but before five years	970	1,400
	1,049	1,452

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

23. Derivative financial instruments

	2011 $m	2010 $m
Currency swaps	39	38
Interest rate swaps	–	4
Forward foreign exchange contracts	(3)	2
	36	44
Analysed as:		
Current assets	(3)	–
Current liabilities	–	6
Non-current liabilities	39	38
	36	44

Derivatives are recorded at their fair values, estimated using discounted future cash flows taking into consideration interest and exchange rates prevailing on the last day of the reporting period.

Currency swaps

At 31 December 2011, the Group held currency swaps with a principal of $415m (2010 $415m). These swaps were transacted at the same time as the £250m 6% bonds were issued in December 2009 in order to swap the bonds' 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 = $1.66. The fair value of the currency swap comprises two components: $29m (2010 $27m) relating to the repayment of the underlying principal and $10m (2010 $11m) relating to interest payments. The element relating to the underlying principal is disclosed as a component of net debt (see note 24). The currency swaps are designated as net investment hedges.

23. Derivative financial instruments continued

Interest rate swaps

At 31 December 2011, the Group held interest rate swaps with notional principals of $100m (2010 $100m and EUR75m). These swaps are held to fix the interest payable on borrowings under the Syndicated Facility; at 31 December 2011, $100m of US dollar borrowings were fixed at 1.99% until May 2012. The interest rate swaps have been designated as cash flow hedges.

Forward foreign exchange contracts

At 31 December 2011, the Group held short dated foreign exchange swaps with principals of EUR75m (2010 EUR75m and HKD70m). The swaps are used to manage US dollar surplus cash and reduce euro borrowings whilst maintaining operational flexibility. The foreign exchange swaps have been designated as net investment hedges.

24. Net debt

	2011 $m	2010 $m
Cash and cash equivalents	**182**	78
Loans and other borrowings – current	**(21)**	(18)
– non-current	**(670)**	(776)
Derivatives hedging debt values (note 23)	**(29)**	(27)
Net debt	**(538)**	(743)
Movement in net debt		
Net increase in cash and cash equivalents	**107**	51
Add back cash flows in respect of other components of net debt:		
Decrease in borrowings	**119**	292
Decrease in net debt arising from cash flows	**226**	343
Non-cash movements:		
Finance lease obligations	**(3)**	(2)
Exchange and other adjustments	**(18)**	8
Decrease in net debt	**205**	349
Net debt at beginning of the year	**(743)**	(1,092)
Net debt at end of year	**(538)**	(743)

Net debt includes the exchange element of the fair value of currency swaps that fix the value of the Group's £250m 6% bonds at $415m. An equal and opposite exchange adjustment on the retranslation of the £250m 6% bonds is included in non-current loans and other borrowings.

Notes to the Group financial statements continued

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 545 (2010 500) employees, of which 125 (2010 140) are in the defined benefit section and 420 (2010 360) are in the defined contribution section. The defined benefit section of the plan closed to new entrants in 2002 and will close to future accrual for current members with effect from 1 July 2013. New members are provided with defined contribution arrangements as will be members of the defined benefit section in July 2013. 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 or annual 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 closed to new members. The Group also operates a number of smaller 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		US and other		Post-employment benefits		Total
	2011 $m	2010 $m	2011 $m	2010 $m	2011 $m	2010 $m	2011 $m	2010 $m
Current service cost	6	6	1	1	–	–	7	7
Interest cost on benefit obligation	28	25	10	11	1	1	39	37
Expected return on plan assets	(29)	(25)	(9)	(10)	–	–	(38)	(35)
Operating profit before exceptional items	5	6	2	2	1	1	8	9
Exceptional items – curtailment gain	(28)	–	–	–	–	–	(28)	–
	(23)	6	2	2	1	1	(20)	9

The curtailment gain arises in respect of the UK pension plan and from the decision to close the defined benefit section to future accrual with effect from 1 July 2013. The plan rules were formally amended to reflect this change in September 2011.

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

	Pension plans							
		UK		US and other		Post-employment benefits		Total
	2011 $m	2010 $m	2011 $m	2010 $m	2011 $m	2010 $m	2011 $m	2010 $m
Actual return on plan assets	53	46	4	13	–	–	57	59
Less: expected return on plan assets	(29)	(25)	(9)	(10)	–	–	(38)	(35)
Actuarial gains/(losses) on plan assets	24	21	(5)	3	–	–	19	24
Actuarial losses on plan liabilities	(22)	(49)	(26)	(13)	(3)	(7)	(51)	(69)
Total actuarial gains/(losses)	2	(28)	(31)	(10)	(3)	(7)	(32)	(45)
Change in asset restriction and liability in respect of funding commitments*	(11)	(48)	–	–	–	–	(11)	(48)
	(9)	(76)	(31)	(10)	(3)	(7)	(43)	(93)

* Relates to tax that would be deducted at source in respect of a refund of the surplus taking into account amounts payable under funding commitments.

25. Retirement benefits continued

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

	Pension plans							
	UK		US and other		Post-employment benefits		Total	
	2011 $m	2010 $m	2011 $m	2010 $m	2011 $m	2010 $m	2011 $m	2010 $m
Retirement benefit assets								
Fair value of plan assets	**551**	–	**16**	16	**–**	–	**567**	16
Present value of benefit obligations	**(471)**	–	**(12)**	(11)	**–**	–	**(483)**	(11)
Surplus in schemes	**80**	–	**4**	5	**–**	–	**84**	5
Asset restriction and liability in respect of funding commitments*	**(63)**	–	**–**	–	**–**	–	**(63)**	–
Total retirement benefit assets	**17**	–	**4**	5	**–**	–	**21**	5
Retirement benefit obligations								
Fair value of plan assets	**–**	475	**117**	114	**–**	–	**117**	589
Present value of benefit obligations	**(54)**	(512)	**(221)**	(198)	**(30)**	(27)	**(305)**	(737)
Deficit in schemes	**(54)**	(37)	**(104)**	(84)	**(30)**	(27)	**(188)**	(148)
Asset restriction and liability in respect of funding commitments*	**–**	(52)	**–**	–	**–**	–	**–**	(52)
Total retirement benefit obligations	**(54)**	(89)	**(104)**	(84)	**(30)**	(27)	**(188)**	(200)
Total fair value of plan assets	**551**	475	**133**	130	**–**	–	**684**	605
Total present value of benefit obligations	**(525)**	(512)	**(233)**	(209)	**(30)**	(27)	**(788)**	(748)

* Relates to tax that would be deducted at source in respect of a refund of the surplus taking into account amounts payable under funding commitments.

The 'US and other' surplus of $4m (2010 $5m) relates to a defined benefit pension scheme in Hong Kong. Included within the 'US and other' deficit is $1m (2010 $2m) relating to a defined benefit pension plan in the Netherlands.

Assumptions

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

	Pension plans					
	UK		US		Post-employment benefits	
	2011 %	2010 %	2011 %	2010 %	2011 %	2010 %
Wages and salaries increases	**4.6**	5.0	**–**	–	**4.0**	4.0
Pensions increases	**3.1**	3.5	**–**	–	**–**	–
Discount rate	**4.7**	5.3	**4.1**	5.2	**4.1**	5.2
Inflation rate	**3.1**	3.5	**–**	–	**–**	–
Healthcare cost trend rate assumed for next year:						
Pre 65 (ultimate rate reached in 2021)					**9.5**	10.0
Post 65 (ultimate rate reached in 2023)					**12.8**	14.0
Ultimate rate that the cost trend rate trends to					**5.0**	5.0

Mortality is the most significant demographic assumption. The current assumptions for the UK plan are based on the S1NA tables with long cohort projections and a 1% per annum underpin to future mortality improvements with age rated down by 1.75 years for pensioners and 1.5 years for non-pensioners. In the US, the current assumptions are based on the RP-2000 IRS PPA @ 2012 Non-Annuitant/Annuitant healthy tables for males and females.

Accordingly, assumed life expectancy at retirement age is as follows:

		Pension plans			
		UK		US	
		2011 Years	2010 Years	2011 Years	2010 Years
Current pensioners at 65[a]	– male	**24**	24	**19**	19
	– female	**27**	27	**21**	21
Future pensioners at 65[b]	– male	**26**	26	**21**	21
	– female	**29**	29	**22**	22

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

b R

25. Retirement benefits continued

The plan assets are comprised as follows:

	2011		2010	
	Value $m	%	Value $m	%
UK pension plans				
Liability matching investment funds	**290**	**53**	237	50
Bonds	**74**	**13**	43	9
Equities	**93**	**17**	96	20
Hedge funds	**56**	**10**	61	13
Cash and other	**38**	**7**	38	8
Total market value of assets	**551**	**100**	475	100
US pension plans				
Equities	**58**	**53**	65	60
Fixed income	**52**	**47**	44	40
Total market value of assets	**110**	**100**	109	100

The expected overall rates of return on assets, being 4.8% (2010 5.9%) for the UK plan and 7.3% (2010 7.5%) for the US plans, have been determined following advice from the plans' independent actuaries and are based on the expected return on each asset class together with consideration of the plans' asset strategy. In respect of the UK plan, the long-term rate of return assumptions are 3.3% (2010 4.5%) for liability matching funds and bonds and 7.4% (2010 8.9%) for equities and other return seeking assets.

Funding commitments

The most recent actuarial valuation of the InterContinental Hotels UK Pension Plan was carried out as at 31 March 2009 and showed a deficit of £129m on a funding basis. Under the recovery plan agreed with the trustees, the Group aims to eliminate this deficit by March 2017 through additional Company contributions of up to £100m and projected investment returns. The agreed additional contributions comprise three annual payments of £10m (£10m was paid in August 2010, £10m in July 2011 and a further payment of £10m is due on or before 31 July 2012), together with further payments related to the disposal of hotels (7.5% of net sales proceeds) and growth in the Group's EBITDA above specified targets. As at 31 December 2011, total additional contributions of £36m have been paid, including £21m during 2011. If required in 2017, a top-up payment will be made to bring the total additional contributions up to £100m. The plan is formally valued every three years and future valuations could lead to changes in the amounts payable beyond March 2012.

Company contributions are expected to be $37m in 2012, including known UK additional contributions of £11m with further amounts payable if there are any hotel disposals.

History of experience gains and losses	2011 $m	2010 $m	2009 $m	2008 $m	2007 $m
UK pension plans					
Fair value of plan assets	**551**	475	426	437	611
Present value of benefit obligations	**(525)**	(512)	(461)	(411)	(597)
Surplus/(deficit) in the plans	**26**	(37)	(35)	26	14
Experience adjustments arising on plan liabilities	**(22)**	(49)	(44)	55	31
Experience adjustments arising on plan assets	**24**	21	(14)	(57)	(6)
US and other pension plans					
Fair value of plan assets	**133**	130	126	112	144
Present value of benefit obligations	**(233)**	(209)	(197)	(185)	(184)
Deficit in the plans	**(100)**	(79)	(71)	(73)	(40)
Experience adjustments arising on plan liabilities	**(26)**	(13)	(13)	3	–
Experience adjustments arising on plan assets	**(5)**	3	14	(38)	–
US post-employment benefits					
Present value of benefit obligations	**(30)**	(27)	(20)	(19)	(20)
Experience adjustments arising on plan liabilities	**(3)**	(7)	(1)	1	–

The cumulative amount of net actuarial losses recognised since 1 January 2004 in the Group statement of comprehensive income is $285m (2010 $253m). 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 2010	189	151	(146)	(35)	31	(167)	23
Income statement	24	(3)	(12)	11	6	–	26
Statement of comprehensive income	–	–	–	(22)	–	(2)	(24)
Statement of changes in equity	–	–	–	–	–	(12)	(12)
Exchange and other adjustments	(8)	(4)	8	(1)	(2)	(1)	(8)
At 31 December 2010	205	144	(150)	(47)	35	(182)	5
Income statement	19	(7)	17	–	1	20	50
Statement of comprehensive income	–	–	–	(12)	–	1	(11)
Statement of changes in equity	–	–	–	–	–	9	9
Exchange and other adjustments	(3)	–	–	–	2	(1)	(2)
At 31 December 2011	**221**	**137**	**(133)**	**(59)**	**38**	**(153)**	**51**

	2011 $m	2010 $m
Analysed as:		
Deferred tax assets	**(106)**	(79)
Deferred tax liabilities	**97**	84
Liabilities held for sale	**60**	–
	51	5

Deferred gains on loan notes includes $55m (2010 $55m) which is expected to fall due for payment in 2016.

The deferred tax asset recognised in respect of losses of $133m (2010 $150m) includes $104m (2010 $113m) in respect of capital losses available to be utilised against the realisation of capital gains which are recognised as a deferred tax liability and $29m (2010 $37m) in respect of revenue tax losses. Deferred tax assets of $44m (2010 $79m) are recognised in relation to legal entities which suffered a tax loss in the current or preceding period. These assets are recognised based upon future taxable profit forecasts for the entities concerned.

Tax losses with a net tax value of $358m (2010 $411m), including capital losses with a value of $134m (2010 $148m), have not been recognised. These losses may be carried forward indefinitely with the exception of $11m which expires after five years and $1m which expires after six years (2010 $16m which expires after six years). Deferred tax assets with a net tax value of $29m (2010 $15m) in respect of employee benefits, up to $34m (2010 $nil) in respect of foreign tax credits and $52m (2010 $5m) 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 currently 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 as a result of resolving tax uncertainties, or as a consequence of case law and legislative developments which make the value of assets more certain.

At 31 December 2011, 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 (2010 $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 (ABP) enables eligible employees, including Executive Directors, to receive all or part of their bonus in the form of deferred shares. The deferred shares are released on the third anniversary of the award date. Under the terms of the current 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 ABP 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 528,213 shares (2010 nil) were awarded to participants.

Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) allows Executive Directors and eligible employees to receive share awards, subject to the achievement of performance conditions, set by the 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 3,257,364 (2010 2,602,773) 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 2011 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 2011 and no options were granted in the year under the plan.

US Employee Stock Purchase Plan

The US Employee Stock Purchase Plan will allow eligible employees resident in the US an opportunity to acquire Company American Depositary Shares (ADSs) on advantageous terms. The 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 2011 and at 31 December 2011 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 2011, 397,943 (2010 1,016,572) such options were exercised and 45,655 (2010 82,076) lapsed, leaving a total of 458,814 (2010 902,412) 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 $25m (2010 $32m) in operating profit and $nil (2010 $1m) within exceptional administrative expenses related to equity-settled share-based payment transactions during the year, net of amounts borne by the System Fund.

The aggregate consideration in respect of ordinary shares issued under option schemes during the year was $8m (2010 $19m).

The following table sets forth awards and options granted during 2011. No awards were granted under the Executive Share Option Plan, Sharesave Plan or US Employee Stock Purchase Plan during the year.

	ABP	LTIP
Number of shares awarded in 2011	**528,213**	**3,257,364**

The Group uses separate option pricing models and assumptions depending on the plan. The following tables set forth information about options granted in 2011 and 2010:

	ABP	LTIP
2011		
Valuation model	Binomial	Monte Carlo Simulation and Binomial
Weighted average share price	1,415.0p	1,281.0p
Expected dividend yield	2.14%	2.78%
Risk-free interest rate		1.88%
Volatility*		39%
Term (years)	3.0	3.0

	LTIP
2010	
Valuation model	Monte Carlo Simulation and Binomial
Weighted average share price	1,033.0p
Expected dividend yield	3.10%
Risk-free interest rate	1.83%
Volatility*	41%
Term (years)	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:

	ABP Number of shares thousands	LTIP Number of shares thousands
Outstanding at 1 January 2010	1,854	12,266
Granted	–	2,603
Vested	(580)	(1,500)
Lapsed or cancelled	–	(2,027)
Outstanding at 31 December 2010	1,274	11,342
Granted	528	3,257
Vested	(702)	(3,454)
Lapsed or cancelled	(150)	(2,115)
Outstanding at 31 December 2011	**950**	**9,030**
Fair value of awards granted during the year		
2011	**2,141.1¢**	**819.7¢**
2010	n/a*	1,181.9¢
Weighted average remaining contract life (years)		
At 31 December 2011	**0.9**	**1.0**
At 31 December 2010	0.7	1.0

* No awards were granted during the year.

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

	Number of shares thousands	Range of option prices pence	Weighted average option price pence
Executive Share Option Plan			
Outstanding at 1 January 2010	5,870	308.5-619.8	482.8
Exercised	(2,497)	349.1-619.8	478.6
Lapsed or cancelled	(82)	349.1	349.1
Outstanding at 31 December 2010	3,291	308.5-619.8	489.3
Exercised	(1,075)	308.5-619.8	476.5
Lapsed or cancelled	(46)	422.8	422.8
Outstanding at 31 December 2011	**2,170**	**308.5-619.8**	**497.0**
Options exercisable			
At 31 December 2011	**2,170**	**308.5-619.8**	**497.0**
At 31 December 2010	3,291	308.5-619.8	489.3

Included within the options outstanding under the Executive Share Option Plan are options over 458,814 (2010 902,412, 2009 2,001,060) 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 1,265.9p. The closing share price on 31 December 2011 was 1,157.0p and the range during the year was 955.0p to 1,435.0p per share.

Summarised information about options outstanding at 31 December 2011 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	4	0.8	308.5
434.2 to 494.2	1,745	1.6	467.8
619.8	421	3.3	619.8
	2,170	1.9	497.0

28. Issued share capital and reserves

Equity share capital

N

29. Operating leases

During the year ended 31 December 2011, $64m (2010 $53m) was recognised as an expense in the Group income statement in respect of operating leases, net of amounts borne directly by the System Fund. The expense includes contingent rents of $18m (2010 $8m).

Future minimum lease payments under non-cancellable operating leases are as follows:

	2011 $m	2010 $m
Due within one year	46	50
One to two years	41	40
Two to three years	32	36
Three to four years	23	31
Four to five years	21	25
More than five years	255	323
	418	505

In addition, in certain circumstances the Group is committed to making additional lease payments that are contingent on the performance of the hotels that are being leased.

The average remaining term of these leases, which generally contain renewal options, is approximately 19 years (2010 21 years). No material restrictions or guarantees exist in the Group's lease obligations.

Total future minimum rentals expected to be received under non-cancellable sub-leases are $14m (2010 $17m).

30. Capital and other commitments

	2011 $m	2010 $m
Contracts placed for expenditure on property, plant and equipment and intangible assets not provided for in the Group financial statements	14	14

The Group has also committed to invest up to $60m in two investments accounted for under the equity method of which $36m had been spent at 31 December 2011.

31. Contingencies

	2011 $m	2010 $m
Contingent liabilities not provided for in the Group financial statements	8	8

In limited cases, the Group may provide performance guarantees to third-party hotel owners to secure management contracts. The maximum unprovided exposure under such guarantees is $42m (2010 $90m).

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.

32. Related party disclosures

	2011 $m	2010 $m
Total compensation of key management personnel		
Short-term employment benefits	18.8	13.6
Post-employment benefits	0.8	0.6
Termination benefits	1.4	–
Equity compensation benefits	8.1	9.4
	29.1	23.6

There were no other transactions with key management personnel during the year ended 31 December 2011 or the previous year.

Related party disclosures for associates and joint ventures are included in note 14.

Key management personnel comprises the Board and Executive Committee.

Notes to the Group financial statements continued

33. System Fund

The Group operates a System Fund (the Fund) to collect and administer assessments and contributions from hotel owners for specific use in marketing, the Priority Club Rewards loyalty programme and the global reservation system. The Fund and loyalty programme are accounted for in accordance with the accounting policies set out on page 82 of the financial statements.

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

	2011 $m	2010 $m
Income:*		
Assessment fees and contributions received from hotels	**1,025**	944
Proceeds from sale of Priority Club Rewards points	**128**	106
Key elements of expenditure:*		
Marketing	**203**	170
Priority Club	**232**	250
Payroll costs	**182**	167
Net surplus/(deficit) for the year*	**19**	(51)
Interest payable to the Fund	**1**	2

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

The payroll costs above relate to 3,885 (2010 3,927) employees whose costs are borne by the Fund.

The following liabilities relating to the Fund are included in the Group statement of financial position:

	2011 $m	2010 $m
Cumulative short-term net surplus	**39**	20
Loyalty programme liability	**578**	531
	617	551

The net change in the loyalty programme liability and Fund surplus contributed an inflow of $66m (2010 $10m) to the Group's cash flow from operations.

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]

IHG Hotels Limited[a]

Six Continents Hotels, Inc.[b]

Inter-Continental Hotels Corporation[b]

111 East 48th Street Holdings, LLC[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 US.

c Incorporated in Hong Kong.

d Incorporated in France.

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 2011.

PARENT COMPANY FINANCIAL STATEMENTS

OVERVIEW
BUSINESS REVIEW
THE BOARD, SENIOR MANAGEMENT AND THEIR RESPONSIBILITIES
GROUP FINANCIAL STATEMENTS
PARENT COMPANY FINANCIAL STATEMENTS
OTHER INFORMATION

Staybridge Suites Tyler University Area, Texas, US

PARENT COMPANY FINANCIAL STATEMENTS

Parent company balance sheet

31 December 2011	Note	2011 £m	2010 £m
Fixed assets			
Investments	3	**2,934**	2,915
Current assets			
Debtors	4	**18**	27
Creditors: amounts falling due within one year	5	**(1,960)**	(2,147)
Net current liabilities		**(1,942)**	(2,120)
Total assets less current liabilities		**992**	795
Creditors: amounts falling due after one year	5	**(249)**	(248)
Net assets		**743**	547
Capital and reserves			
Called up share capital	6	**39**	39
Share premium account	7	**66**	61
Capital redemption reserve	7	**6**	6
Share-based payment reserve	7	**167**	148
Profit and loss account	7	**465**	293
Equity shareholders' funds		**743**	547

Signed on behalf of the Board

Thomas Singer
13 February 2012

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 £264m (2010 loss of £29m).

Notes on pages 119 to 121 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. Details of the Group's share-based payments are set out in note 27 of the Group financial statements on pages 111 to 113.

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 21 of the Group financial statements on pages 99 and 100.

Capital risk management

The Group's capital risk management policy is set out in note 21 of the Group financial statements on page 100.

Related party transactions

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

2. Directors

	2011	2010
Average number of Non-Executive Directors	8	7

	2011 £m	2010 £m
Remuneration costs	1	1

Detailed information on the emoluments, pensions, option holdings and shareholdings for each Non-Executive Director is shown in the Remuneration Report on pages 54 to 68.

3. Investments

	£m
At 1 January 2011	2,915
Share-based payments capital contribution	19
At 31 December 2011	**2,934**

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

	2011 £m	2010 £m
Amounts due from subsidiary undertakings	5	14
Corporate taxation	13	13
	18	27

Notes to the parent company financial statements continued

5. Creditors

	2011 £m	2010 £m
Amounts falling due within one year		
Amounts due to subsidiary undertakings	**1,960**	2,147
Amounts falling due after more than one year		
£250m 6% bonds	**249**	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

	Number of shares millions	£m
Allotted, called up and fully paid (ordinary shares of 13²⁹⁄₄₇p each)		
At 1 January 2011	289	39
Issued on exercise of share options	1	–
At 31 December 2011	**290**	**39**

The Company no longer has an authorised share capital.

The aggregate consideration in respect of ordinary shares issued under option schemes during the year was £5m (2010 £12m).

	Thousands
Options to subscribe for ordinary shares	
At 1 January 2011	3,291
Exercised*	(1,075)
Lapsed or cancelled	(46)
At 31 December 2011	**2,170**
Option exercise price per ordinary share (pence)	308.5-619.8
Final exercise date	4 April 2015

* The weighted average option price was 476.5p for shares exercised under the Executive Share Option Plan.

The authority given to the Company at the Annual General Meeting (AGM) on 27 May 2011 to purchase its own shares was still valid at 31 December 2011. A resolution to renew the authority will be put to shareholders at the AGM on 25 May 2012.

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 2011	61	6	148	293
Premium on allotment of ordinary shares	5	–	–	–
Profit after tax	–	–	–	264
Share-based payments capital contribution	–	–	19	–
Dividends	–	–	–	(92)
At 31 December 2011	**66**	**6**	**167**	**465**

8. Reconciliation of movements in shareholders' funds

	2011 £m	2010 £m
Earnings available for shareholders	**264**	(29)
Dividends	**(92)**	(77)
	172	(106)
Issue of ordinary shares	**5**	12
Share-based payments capital contribution	**19**	21
Net movement in shareholders' funds	**196**	(73)
Shareholders' funds at 1 January	**547**	620
Shareholders' funds at 31 December	**743**	547

9. Profit and dividends

Profit on ordinary activities after tax amounts to £264m (2010 loss of £29m).

A final dividend, declared in the previous year, of 22.0p (2010 18.7p) per share was paid during the year, amounting to £63m (2010 £54m). An interim dividend of 9.8p (2010 8.0p) per share was paid during the year, amounting to £29m (2010 £23m). A final dividend of 24.7p (2010 22.0p) per share, amounting to £71m (2010 £63m), is proposed for approval at the AGM. The proposed final dividend is payable on shares in issue at 23 March 2012.

The audit fee of £0.02m (2010 £0.02m) was borne by a subsidiary undertaking in both years.

10. Contingencies

Contingent liabilities of £65m (2010 £134m) 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 2011 which comprise the parent 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 auditor

As explained more fully in the Statement of Directors' responsibilities set out on page 121, 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 and express an opinion on 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 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011;
- 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 2011.

Alison Duncan (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
13 February 2012

OTHER INFORMATION

In this section we present a glossary of terms used in the Annual Report and Financial Statements 2011 and some analyses of our share ownership at the end of 2011.

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 San Antonio, US

GLOSSARY

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

Average daily rate rooms 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.

Carbon Disclosure Project (CDP) the CDP is a global, voluntary questionnaire which allows organisations to disclose their carbon emissions and steps that they are taking to reduce them.

Capital expenditure purchases of property, plant and equipment, intangible assets, associate and joint venture investments and other financial assets.

Cash-generating units the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets, or groups of assets.

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 hotels or operations 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 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, including the exchange element of the fair value of currency swaps hedging the borrowings.

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 hotel 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) rooms 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.

Rooms revenue revenue generated from the sale of room nights.

Royalty revenues rooms 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 rooms 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 2011 by type

	Number of shareholders	Percentage of total shareholders	Ordinary shares	Percentage of issued share capital
Category of shareholdings				
Private individuals	49,660	94.82	19,267,960	6.63
Nominee companies	2,313	4.42	265,361,826	91.33
Limited and public limited companies	253	0.48	753,041	0.26
Other corporate bodies	136	0.26	4,673,691	1.61
Pension funds, insurance companies and banks	11	0.02	491,571	0.17
Total	**52,373**	**100**	**290,548,089**	**100**

Shareholder profile as at 31 December 2011 by size

	Number of shareholders	Percentage of total shareholders	Ordinary shares	Percentage of issued share capital
Range of shareholdings				
1 – 199	32,339	61.75	2,094,248	0.72
200 – 499	10,443	19.94	3,343,217	1.15
500 – 999	4,996	9.54	3,486,419	1.20
1,000 – 4,999	3,647	6.96	6,785,898	2.34
5,000 – 9,999	300	0.57	2,055,251	0.71
10,000 – 49,999	340	0.65	7,451,454	2.56
50,000 – 99,999	84	0.16	6,151,585	2.12
100,000 – 499,999	140	0.27	29,353,836	10.10
500,000 – 999,999	38	0.07	26,873,078	9.25
1,000,000 and above	46	0.09	202,953,103	69.85
Total	**52,373**	**100**	**290,548,089**	**100**

Shareholder profile as at 31 December 2011 by geographical location

	Percentage of issued share capital[1]
Country/jurisdiction	
UK	44.2
Rest of Europe	10.8
US (including ADRs)	41.3
Rest of World	3.7
Total	**100**

1 The geographical profile presented is based on an analysis of shareholders (by manager) of 40,000 shares or above where geographical ownership is known. This analysis only captures 90.0% of total issued share capital. Therefore, the known percentage distributions have been multiplied by 100/90.0 (1.111) to achieve the figures shown in the table above.

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 shareholders through the Company's website www.ihgplc.com/investors under financial library.

Shareholders may appoint electronically a proxy to vote on their behalf on any poll that is to 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 offering 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 2011, for UK Capital Gains Tax purposes, may be found on the Company's website www.ihgplc.com/investors under shareholder centre/tax information.

Corporate Responsibility Report

IHG has published an online Corporate Responsibility Report (updated quarterly) covering progress on a range of environmental, social and community issues. This is available on our corporate website and can be viewed 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† (calls from within the UK) or +44 (0) 121 415 7034 (calls from outside the UK).

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 form 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.

It may be possible for shareholders to have their dividends paid direct to their bank account in a local currency. Charges are payable for this service. Further information is available at www.shareview.co.uk under shareholder centre/overseas payment service.

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

Individual Savings Accounts (ISAs)

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

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 share 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.

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.

Missing shareholders

Working with ProSearch (an asset reunification company), we continue to look for shareholders who have not kept their contact details up-to-date. We have funds waiting to be claimed and are committed to doing what we can to pay these to their rightful owners. For further details please contact ProSearch on 01732 741 411 or email info@prosearchassets.com.

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.moneyadviceservice.org.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 128).

Form 20-F

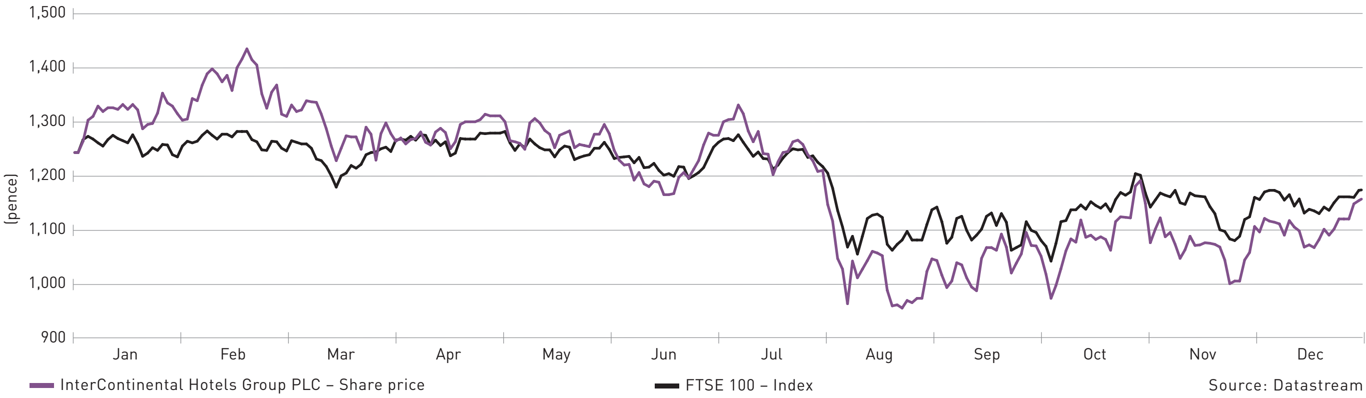
The Company is subject to the reporting requirements of the Securities and Exchange Commission (SEC) in the US and files with the SEC an Annual Report on Form 20-F. The Form 20-F can be found on the Company's website www.ihgplc.com/investors under shareholder centre/ADR holders or by visiting the SEC's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

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

Share price information

The latest share price is available in the financial press. Further details of the share price may be found on the Company's website www.ihgplc.com/investors.

Share price 2011: 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
2011	**9.8**	**16.00**	**24.7**	**39.00**	**34.5**	**55.00**
2010	8.00	12.80	22.00	35.20	30.00	48.00
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.

FIVE YEAR HISTORY

	2011 Total operations $m	2010 Total operations $m	2009 Total operations $m	2008 Total operations $m	2007 Total operations $m
Revenue	**1,768**	1,628	1,538	1,897	1,850*
Operating profit before exceptional items	**559**	444	363	549	491**
Profit/(loss) before tax	**532**	397	(64)	316	461
Basic earnings per share from total operations (cents)	**159.2**	101.7	74.7	91.3	144.7
Adjusted earnings per share from total operations (cents)	**130.4**	98.6	102.8	120.9	97.2

* 2007 includes $33m from discontinued operations.
** 2007 includes $3m from discontinued operations.